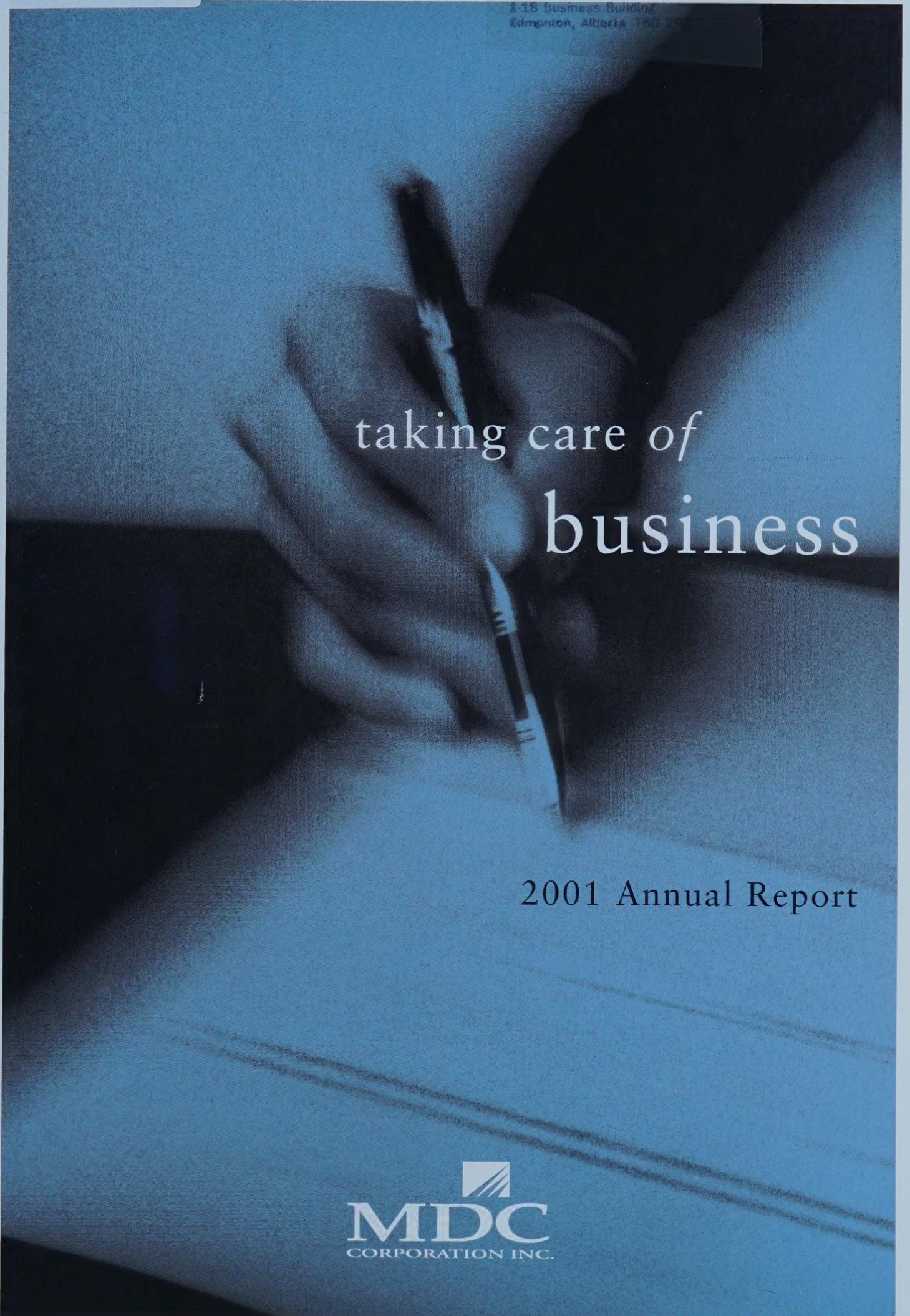


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taking care of  
business

2001 Annual Report



**MDC**  
CORPORATION INC.

# Financial Highlights

## Consolidated Financial Summary

(in thousands of Canadian dollars, except per share amounts)

For the years ended December 31	2001	2000	% Change
Sales	1,113,272	1,166,782	- 5
Operating income before other income (charges)	118,344	126,781	- 7
Income (loss) before income taxes, goodwill charges and minority interest	(64,511)	64,623	- 200
Cash flow from operations	152,694	109,683	+ 39
Income (loss) from continuing operations	(99,360)	41,282	- 341
Net income (loss) for the year	(139,360)	41,282	- 438
Earnings per share			
Income (loss) before goodwill charges and minority interest			
Basic	(2.43)	3.09	- 179
Fully diluted	(2.43)	2.58	- 194
Earnings per share			
Continuing operations			
Basic	(6.02)	2.26	- 366
Fully diluted	(6.02)	1.92	- 414
Earnings per share			
Reported			
Basic	(8.39)	2.26	- 471
Fully diluted	(8.39)	1.92	- 537
Cash flow per share			
Basic	8.91	6.20	+ 44
Fully diluted	6.64	5.05	+ 31
For the three months ended December 31	2001	2000	% Change
Sales	286,224	324,717	- 12
Operating income before other income (charges)	30,515	35,411	- 14
Income before income taxes, goodwill charges and minority interest	70,026	12,937	+ 411
Cash flow from operations	108,942	36,497	+ 198
Net income for the period	42,892	11,350	+ 278
Earnings per share			
Income before goodwill charges and minority interest			
Basic	3.00	0.88	+ 241
Fully diluted	1.55	0.72	+ 115
Earnings per share			
Reported			
Basic	2.50	0.64	+ 291
Fully diluted	1.30	0.53	+ 145
Cash flow per share			
Basic	6.41	2.14	+ 200
Fully diluted	3.30	1.70	+ 94

## Condensed Consolidated Balance Sheet

(in thousands of Canadian dollars)

As at December 31	2001	2000	% Change
Cash and short-term investments	59,301	61,031	- 3
Other current assets	206,020	246,353	- 16
Other assets	652,994	800,066	- 18
Total assets	918,315	1,107,450	- 17
Current liabilities	240,814	250,979	- 4
Long-term indebtedness	527,468	558,622	- 6
Future income taxes	—	20,645	- 100
Minority interest	15,253	25,356	- 40
Shareholders' equity	134,780	251,848	- 46
Total liabilities and shareholders' equity	918,315	1,107,450	- 17

## the MDC group of companies

MDC companies enjoy market-leading positions in their businesses in Canada, the United States, Europe and Australia.

### MDC owns:

- ▶ Custom Direct, the second largest supplier of direct-to-consumer cheques in the U.S. market.
- ▶ 85% of Metaca Corporation, the leading provider of credit, debit, telephone and smart card services in Canada.
- ▶ Mercury Graphics, a major supplier of secure ticketing products to the world's leading airline, sports, entertainment and transit companies.
- ▶ Ashton-Potter Canada, Ashton-Potter USA, and House of Questa, which together represent one of the world's largest private providers of postage stamps.

MDC also owns 76% of Maxxcom, the largest full-service marketing communications organization based in Canada. Maxxcom, which is listed on the Toronto Stock Exchange, is built around entrepreneurial partner firms that provide a comprehensive range of communication services to clients in Canada, the U.S. and Europe. Services include advertising, direct marketing, database management, sales promotion, public relations, public affairs, investor relations, marketing research and consulting, corporate identity and branding, and interactive marketing.



Miles S. Nadal | Chairman & Chief Executive Officer

*In 2001, MDC's priorities shifted dramatically as the Company responded to weak markets. We executed a wide-ranging restructuring plan, turning our attention from growth to profitability. We focused on costs, rather than revenues. We reviewed alternate ways to reduce debt and leverage as well as the number of businesses and geographies in which MDC participates.*

We continue to conduct a thorough review of all our operations to identify the best ways MDC can build and capture shareholder value. The Company holds a number of valuable assets and we are evaluating how these assets can provide the best returns to our shareholders.

This review process has already resulted in one notable success – the sale of the Davis + Henderson (D+H) cheque supply outsourcing business and its re-creation as an income fund. Before describing our initiatives and direction in more detail, let's review our results for 2001.

## 2001 RESULTS

Revenue from continuing operations (excluding the results of Regal Greetings & Gifts) was \$1.113 billion in 2001 compared to \$1.167 billion in 2000. Operating income before other charges was \$118.3 million compared to \$126.8 million in 2000.

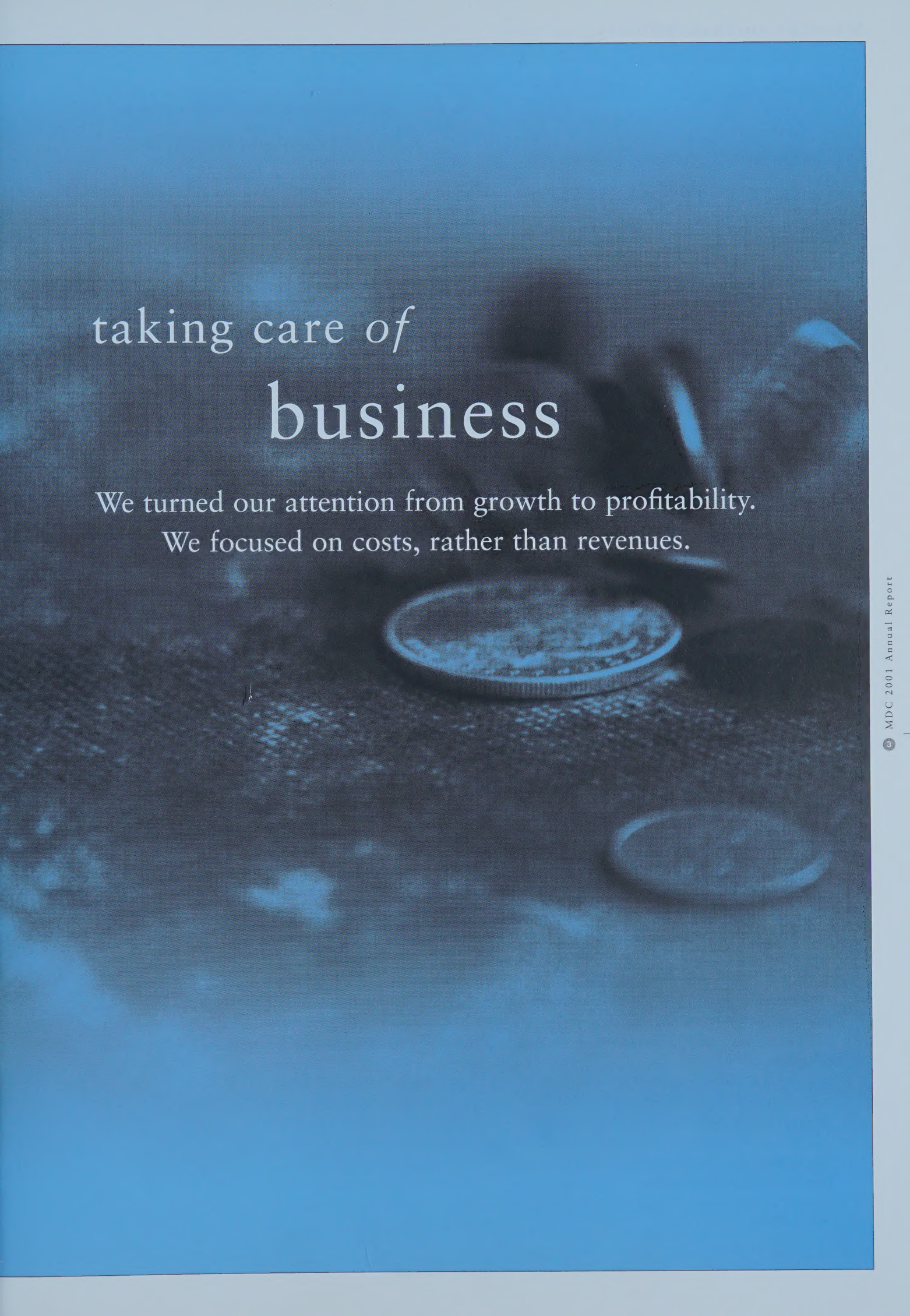
Including cash restructuring charges of \$21.2 million and non-cash charges of \$217.3 million, MDC reported a net loss of \$139.4 million, or \$8.39 per diluted share in 2001. The non-cash restructuring charges consisted of the write-down of goodwill, intangibles and other specific assets. The cash restructuring charges reflect the cost of employee terminations and the exit from certain leased facilities. Cash flow per diluted share was \$6.64 in 2001 compared to \$5.05 in 2000.

Revenues from our cheque, card, stamp and printing businesses, as a group, increased by 7% to \$516.5 million during 2001 once Optus revenues were eliminated from 2000 results. Similarly, on a comparable basis without the results of Optus, operating income improved 2% in 2001 to \$91.5 million.

At Maxxcom, sales declined slightly to \$596.8 million. Operating income declined by 19% to \$26.9 million with significant downward pressure on margins, as client spending reduced, combined with increased competition for remaining projects, particularly in the fourth quarter. The past year proved to be one of the worst in recent memory for the marketing and communications industry as advertising expenditures experienced the most significant decline in decades.

## RESTRUCTURING INITIATIVES

In response to this difficult economic environment, MDC took a number of steps in 2001. First, we undertook a process to improve efficiencies in our operations and provide a solid foundation of properties which possess future growth opportunities. The result was the development and implementation of a plan which included workforce reductions, office closures and cutbacks in discretionary spending. It is expected to result in annualized pre-tax cost savings of more than \$30 million. This plan also identified non-core assets which were targeted for disposal.

A dark, moody photograph of a person's hands holding a coin over a textured surface. The image is in a monochromatic blue-grey tone. The hands are positioned in the upper right, holding a coin that is being placed onto a surface covered in small, light-colored granules. The lighting is dramatic, highlighting the textures of the skin, the coin, and the granules.

# taking care of business

We turned our attention from growth to profitability.  
We focused on costs, rather than revenues.

*We have substantially reduced  
our debt and are firmly focused  
on ensuring profitability.*

Second, to ensure the successful implementation of our restructuring plan, we strengthened our management team with the appointment of James C. Johnson as President & COO of MDC. Mr. Johnson has substantial operating experience in the financial services, merchant banking and venture capital sector in North America. In January 2002, Harold Reiter was appointed President & CEO of Maxxcom. Mr. Reiter has more than 20 years of experience in operations management, financial management and reporting, and corporate restructurings.

Third, we completed important transactions to crystallize value for shareholders and applied the resulting proceeds to substantially reduce the Company's indebtedness.

The first transaction was the sale of Regal Greetings & Gifts (Regal) in December 2001 for proceeds of approximately \$36 million. This was followed by the closing of an initial public offering of units in the Davis + Henderson Income Fund, an income trust listed on the Toronto Stock Exchange. In separate transactions, MDC transferred a 45.45% interest in D+H to the Fund in 2001 and has subsequently sold its remaining 54.55% interest in 2002. The entire sale of D+H resulted in total proceeds of approximately \$470 million and generated a significant return on MDC's initial investment of \$50 million in D+H in 1996.

Since the acquisition of D+H, MDC has worked with the management at D+H to significantly increase its market share through acquisition and internal growth, to improve efficiencies through automation and electronic ordering, to secure long-term supply contracts with all of Canada's major financial institutions, and to introduce marketing initiatives and premium product lines that have increased average order values. These initiatives increased D+H's operating income significantly and allowed MDC to crystallize this value for its shareholders through the income fund initial public offering.

#### DEBT REDUCTION

In total, the Regal and D+H transactions have provided MDC with proceeds in excess of \$500 million. The Company has applied the proceeds to significantly reduce its long-term indebtedness. On December 19, 2001, the Company retired the entire outstanding amount of its senior credit facility. In April 2002, the Company completed the repurchase of US\$112.5 million of its 10.5% Senior Subordinated Notes due December 1, 2006 at 89% of the original principal amount.

As a result of these capital transactions MDC's balance sheet and liquidity have been greatly improved. Long-term indebtedness on a consolidated basis has been reduced from \$678.2 million at September 30, 2001, to approximately \$250 million today.

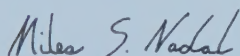
#### 2002 OUTLOOK

Throughout 2002, MDC will be focused on managing each of its businesses effectively. Our priorities are first, to return to profitability, and second, to increase market share to further strengthen our business platforms.

While stronger markets in a number of our businesses would have an immediate beneficial effect on our performance, we are not depending on an economic recovery to improve our results.

We have added important new management strength to ensure we can deliver. We have substantially reduced our indebtedness and are firmly focused on ensuring profitability at MDC, capturing the value inherent in the Company's assets.

We continue to apply a strict focus on taking care of business in 2002 and we look forward to reporting to you on our progress.



Miles S. Nadal  
Chairman & Chief Executive Officer

April 12, 2002

## Personalized and Electronic Transaction Products

Revenues and cash flow were up significantly over 2000 as pricing pressures in the industry eased.

MDC companies enjoy market-leading positions in their businesses in Canada, the United States and Australia. MDC owns:

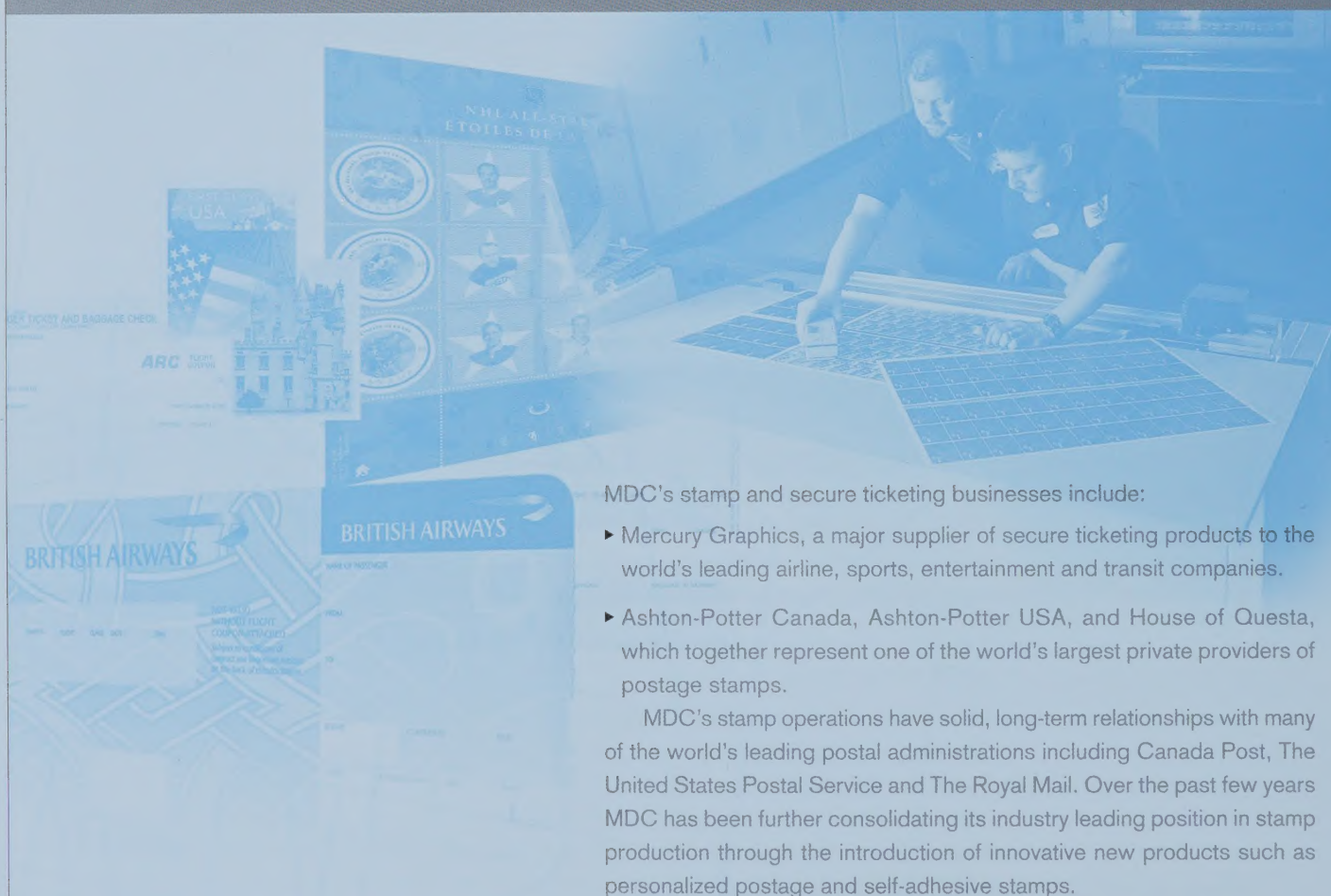
- ▶ Custom Direct, the second largest supplier of direct-to-consumer cheques in the U.S. market.
- ▶ 85% of Metaca Corporation, the leading provider of credit, debit, telephone and smart card services in Canada.

Custom Direct enjoyed a strong year as consumers continued to react favourably to the Company's Internet ordering services. Revenues and cash flow were up significantly over 2000 as pricing pressures in the industry eased. The Company's 4checks.com website produced impressive results in its first full year of operation in 2001 by generating higher average order values than traditional channels. The site is a portal to the nine brands of cheques and other products offered by Custom Direct, providing consumers with the choice of more than 300 cheque designs.

Metaca primarily services the financial services, telecommunications, retail, insurance and utility industries and continues to expand its capabilities and customer base. With the acquisition of NBS Canada in February 2001, the third largest card services provider based in Canada, several blue-chip customers including Sears, Petro-Canada and Shoppers Drug Mart were added to Metaca's already impressive roster. In April 2001, Metaca signed a licensing agreement enabling it to provide advanced EdgeTech® open architecture solutions for use in such applications as stored value payment cards and co-branded loyalty smart cards. These are two of the highest-value and fastest growing areas in the card market. Metaca's Australian subsidiary, Placard, the second largest card services provider in that country, continues to make progress with increasing market share.

## Stamps and Secure Ticketing Products

one of the world's largest private sector providers  
of postage stamps and the second largest provider of  
secure ticketing products in North America



MDC's stamp and secure ticketing businesses include:

- ▶ Mercury Graphics, a major supplier of secure ticketing products to the world's leading airline, sports, entertainment and transit companies.
- ▶ Ashton-Potter Canada, Ashton-Potter USA, and House of Questa, which together represent one of the world's largest private providers of postage stamps.

MDC's stamp operations have solid, long-term relationships with many of the world's leading postal administrations including Canada Post, The United States Postal Service and The Royal Mail. Over the past few years MDC has been further consolidating its industry leading position in stamp production through the introduction of innovative new products such as personalized postage and self-adhesive stamps.

Our secure ticketing products business supplies 15 airlines (including Air Canada, British Airways and Northwest Airlines); more than 30 municipal transit authorities (including Toronto Transit Commission and BC Transit); over 100 professional sports teams (including Boston Celtics, Los Angeles Dodgers and San Francisco 49ers) and over 50 college sports teams. The adversity suffered by the airline industry in the fall of 2001 impacted the economics of Mercury; however, the skill and resilience of the management team ensured that the company has survived the impact, and growth plans have been resumed.

the largest full-service marketing  
communications organization based  
in Canada

## Maxxcom

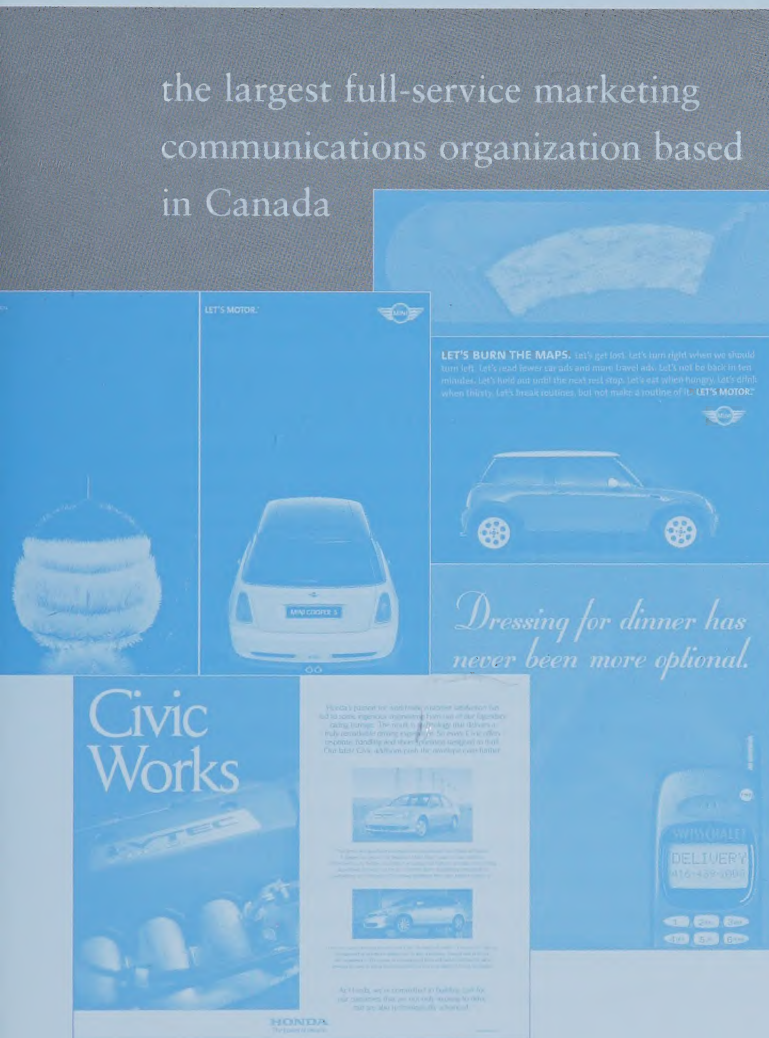
MDC owns 76% of Maxxcom, the largest full-service marketing communications organization based in Canada. Maxxcom, which is listed on the Toronto

Stock Exchange, is built around entrepreneurial partner firms that provide a comprehensive range of communication services to clients in Canada, the U.S. and Europe. Services include advertising, direct marketing, database management, sales promotion, public relations, public affairs, investor relations, marketing research and consulting, corporate identity and branding, and interactive marketing.

Maxxcom had a difficult year in 2001 as the economic slowdown in North America and Europe had a particularly severe impact on the advertising, marketing and communications industry. During 2001, staffing levels were reduced by almost 20%. Other cost savings initiatives have been undertaken and together with staff reductions are expected to generate savings of approximately \$15 million on an annualized basis.

While Maxxcom has curtailed its acquisition activities since the fall of 2001, the Company did expand its operations through the purchase of interests in a number of quality firms in the first half of 2001. Among the acquisitions was a majority interest in Grange Advertising in the United Kingdom, one of the country's top five business-to-business agencies; and 49% of the award-winning advertising agency Crispin Porter + Bogusky (CP+B), based in Miami, Florida.

CP+B, a high-profile creative shop, was chosen in 2001 to handle advertising and marketing for BMW's launch of the Mini Cooper. Other important client acquisitions by Maxxcom partners in 2001 include: IKEA, Bacardi USA, Compaq, Allstate, Wal-Mart, Workopolis and Nestlé USA.



*Year Ended December 31, 2001 compared with the Year Ended December 31, 2000*

## Sales

Consolidated sales for the year totalled \$1.113 billion, a decline of \$53.5 million, or 5% from the \$1.167 billion achieved in 2000. 72% of the decrease, or \$38.5 million, occurred in the fourth quarter. \$45.3 million of the year-over-year decline occurred in the Secure Transactions Division, with the remaining \$8.2 million from Maxxcom.

### Secure Transactions Division

Sales from the Secure Transactions Division were \$516.5 million in 2001, a reduction of \$45.3 million or 8% over the \$561.8 million achieved in the prior year. Excluding \$79.4 million of revenues related to Optus, a business that was sold late in the prior year, the Secure Transactions Division achieved revenue growth of \$34.1 million or 7%. Both cheque operations and the card group experienced strong revenue growth, which more than offset the slight decrease of MDC's stamp and ticket group that suffered from the impact of a reduction in airline volumes during the latter part of 2001. The Company's U.S. direct-to-consumer cheque operation benefited from increased sales through its on-line cheque ordering program initiated in 2000. The first quarter acquisition of NBS Canada established Metaca Corporation as Canada's leading card services provider and significantly contributed to the increase in sales of the card group.

### Maxxcom

Maxxcom generated sales of \$596.8 million for the year ended December 31, 2001, \$8.2 million, or 1% lower than the same period of 2000. The global economic downturn and a decline in demand throughout the marketing communications industry significantly impacted the fourth quarter of 2001. Sales for the quarter declined \$16.1 million or 9% from the fourth quarter of 2000, despite additional revenues of acquisitions completed during the year.

## Gross Profit

Consolidated gross profit was \$555.0 million, representing a decrease of 1% or \$7.6 million from the gross profit of \$562.6 million achieved in 2000. Gross margin improved to 49.9% from 48.2% in 2000 primarily the result of a shift in the mix of services provided by Maxxcom, together with the divestiture of Optus in 2000.

### Secure Transactions Division

The Secure Transactions Division achieved gross profit of \$281.5 million for 2001, a decline of \$18.6 million or 6% from last year, but gross margin increased from 53.4% in 2000 to 54.5% in the current year. Increased gross profit in both cheque operations as well as the card group was more than offset by reduced activity in our stamp and ticketing operations combined with a reduction from e-commerce operations primarily due to the sale of Optus.

### Maxxcom

Maxxcom contributed \$273.4 million in gross profit, an increase of \$10.9 million or 4% over last year. This was directly attributable to the increase in the ratio of services provided such as direct marketing and sales promotion versus traditional advertising. Clients have shifted their advertising spending towards more directly measurable below-the-line services. The resulting higher margins acted to more than offset the effect of lower revenues.

## Operating Expenses

Total operating expenses for the Company were \$436.6 million, a slight increase of \$0.8 million from the \$435.8 million in 2000, and as a percentage of sales increased from 37.4% to 39.2% primarily due to increased below-the line services at Maxxcom virtually offset by reductions in the Secure Transactions Division.

### Secure Transactions Division

Operating expenses for the Secure Transactions Division totalled \$190.1 million in 2001, a reduction of 8% or \$16.3 million lower than the \$206.4 million incurred last year. The reduction in operating expenses is due to the sale of Optus and cost-cutting initiatives undertaken in the second half of 2001 partially offset by increased advertising expenditures at our U.S. cheque operation. Operating expenses as a percentage of sales, at 36.8%, remained constant with the prior year.

### Maxxcom

Operating expenses were \$246.6 million in 2001 compared to \$229.4 million in 2000, a year-over-year increase of \$17.1 million or 7%. This was due primarily to the impact of businesses acquired over the past two years, and to higher operational costs that are associated with the shift of services provided during the year from advertising to below-the line services.

### Operating Income before Other Income (Charges)

Consolidated operating income before other income (charges) was \$118.3 million for the year, reflecting a decrease of \$8.5 million or 7% from the \$126.8 million achieved in 2000, the combined result of lower revenues and higher operating costs. Operating margin decreased slightly to 10.6% of sales from 10.9% of sales in the prior year as the improved margins of the Secure Transactions Division partially offset the lower margins experienced by Maxxcom.

#### Secure Transactions Division

Operating income of \$91.5 million for this division decreased \$2.2 million or 2% from \$93.7 million generated last year. This reduction can be attributed to declines from e-commerce businesses including the sale of Optus late last year and poor performance in stamp operations partially offset by improvements in cheque and card operations as well as a reduction of head office expenditures. Operating income as a percent of sales improved by 1% from 16.7% of sales in 2000 to 17.7% of sales in 2001.

#### Maxxcom

Due to the combination of lower revenues, the change in mix of services provided, and pressures on profit as a result of industry competition for fewer projects, Maxxcom experienced a decrease in operating income before other items of \$6.2 million, or 19%, to \$26.9 million from the \$33.1 million achieved in 2000. Operating income represented 4.5% of sales as compared to 5.5% of sales in the prior year.

### Restructuring, Dispositions and Other Charges

During the year, the Company conducted a detailed review of all operations. A plan was developed to maximize and streamline efficiencies in every business, and focus management attention and resources by reducing the number of businesses and diverse international locations in which the Company operates. Charges totalled \$188.0 million for the year comprised of \$21.2 million of cash charges and \$166.8 million of non-cash charges against specific assets. The restructuring process is expected to be completed over the next 12 months.

The gain on disposal of assets of \$96.4 million is primarily related to the disposition of a 45.45% interest in the Canadian cheque printing operations of Davis + Henderson which was completed late in the fourth quarter through an income fund offering. In 2000, the \$42.2 million gain was due to the initial public offering of Maxxcom, the private placement at CyberSight, and the sale of Optus and a 15% interest in Metaca.

#### Secure Transactions Division

The Secure Transactions Division recorded charges of \$173.8 million in connection with its restructuring plans. Of the total restructuring charges, \$161.9 million were non-cash in nature relating to the write-down of intangibles and other specific assets associated with non-core operations. The remaining \$11.9 million were cash restructuring charges incurred to cover employee terminations and the exit from certain leased facilities.

#### Maxxcom

The restructuring charge at Maxxcom totalled \$14.2 million, comprised of \$9.3 million of cash charges for employee terminations and facility closure costs and \$4.9 million of non-cash charges with respect to capital and other specific assets.

### Amortization

Amortization for the year amounted to \$40.7 million, an increase of \$1.5 million over the previous year, due to the impact of Maxxcom acquisitions completed over the latter part of 2000 and through 2001, partially offset by the decrease in asset base as a result of the 2000 sale of Optus and charges taken against the capital and other assets of non-core operations.

### Interest, Net

Interest expense on a consolidated basis was \$50.6 million in 2001 versus \$47.3 million in 2000, up 7% or \$3.3 million. This increase is primarily due to the higher levels of long-term indebtedness outstanding during the year as compared to 2000, to Canadian dollar interest paid on U.S. dollar denominated debt due to exchange fluctuations partially offset by reduced interest rates on floating interest rate indebtedness.

### Income (Loss) before Income Taxes, Goodwill Charges and Minority Interest

The loss before income taxes, goodwill charges and minority interest for the year ended December 31, 2001 was \$64.5 million as compared to income of \$64.6 million in the year-earlier period. The \$129.1 million decrease is primarily attributable to the \$116.0 million change in restructuring, dispositions and other charges and to lower revenues.

### Income Tax Expense

For 2001 there was an income tax recovery of \$25.7 million compared with income tax expense in 2000 of \$8.9 million, and the Company's effective tax rate for the year increased to 39.9% of income (loss) before income taxes, goodwill charges and minority interest from 13.8% last year. This change results from the portion of deductible restructuring and other charges incurred in 2001 as compared to 2000, and the effect of income tax benefits relating to structural and financing arrangements.

### Goodwill Charges

Goodwill charges were \$67.2 million for 2001. The increase of \$55.5 million over the prior year included both the \$50.5 million charge for the write down of goodwill related to the restructuring plan and the increase of goodwill amortization as a result of acquisitions completed since 2000.

### Minority Interest

Minority interest represents a \$6.6 million recovery compared to a charge of \$2.7 million in 2000. This recovery is reflective of the minority interests' share in losses incurred at Maxxcom, CyberSight and Metaca.

### Income (Loss) from Continuing Operations

A difficult economic environment, which resulted in reduced revenues and profitability, encouraged management to effect a restructuring plan to not only limit the impact of the global economic downturn, but to reposition the Company's capital for future growth. The resulting loss from continuing operations sustained for the year was \$99.4 million as compared to income of \$41.3 million in 2000.

### Loss from Discontinued Operations

The loss from discontinued operations resulted from a second quarter provision recorded to cover the anticipated loss on the sale of the discontinued operations of Regal Greeting & Gifts (Regal). This business unit was ultimately disposed of late in the year with no adjustment required to the provision.

### Net Income (Loss) for the Year

The net loss for the year was \$139.4 million, compared to a profit of \$41.3 million in 2000 due primarily to the provision for discontinued operations, restructuring and other charges, and goodwill charges taken in the year partially offset by asset dispositions.

### Liquidity and Capital Resources

#### Working Capital

Working capital was \$24.5 million at the end of 2001, \$31.9 million lower than the working capital of \$56.4 million existing at the end of 2000. The decrease is primarily due to a significant reduction in the estimated useful life of customer acquisition costs in the direct-to-consumer cheque operation resulting in a reduction of prepaid expenses, lower accounts receivable and inventory carried at December 31, 2001 due to the sale of Regal and reduced fourth quarter activity at Maxxcom. Partially offsetting the decrease is reduced accounts payable as well as a current future income tax asset which will be realized on the sale of our remaining interest in Davis + Henderson in 2002.

During the year the company amended its senior credit facility to allow for the implementation of the restructuring plan. Following the successful completion of the sale of 45.45% of Davis + Henderson and the sale of Regal, with proceeds used to permanently repay borrowings under the senior credit facility, the Company's available line of credit at year-end was US\$15 million. In addition there are operating credit facilities at both Maxxcom and Davis + Henderson, Limited Partnership of \$80 million and \$10 million respectively. In total, approximately \$73 million has been utilized under these facilities in the form of cash and letters of credit at December 31, 2001. This is significantly reduced from the \$235 million utilized at the end of 2000. As at December 31, 2001, the Company had approximately \$100 million in cash and available operating bank credit facilities. In addition, subsequent to the year-end, the Company received additional gross proceeds of \$17 million with regards to the exercise of the over-allotment option in January 2002 and approximately \$200 million in April 2002 in relation to the sale of the Company's remaining interest in Davis + Henderson. The Company's available bank credit facilities and cashflows are sufficient to support the Company's future cash requirements, including capital expenditures planned for 2002 of approximately \$15 million and the planned repurchase of 10.5% Notes for US\$100 million.

### Long-term Indebtedness

Total long-term indebtedness including the current portion was \$539.5 million, representing a decrease of \$28.9 million from the \$568.5 million in the year prior. Maxxcom issued a \$40.0 million subordinated debenture in the third quarter of 2001, which was used to fund acquisitions and reduce indebtedness under its senior credit facility. In conjunction with the formation of Davis + Henderson, Limited Partnership, term and capital expenditure facilities were established for \$80 million and \$18 million respectively. The term portion of \$80 million was drawn on closing with proceeds applied to the MDC senior credit facility.

The following table summarizes the Company's exposure to interest and exchange rate risks by providing the amount of long-term indebtedness outstanding at December 31, 2001 in the currency in which it is denominated and the amounts that are subject to floating versus fixed rates of interest:

Interest	CDN\$	US\$	UK£	AUS\$
Fixed	17,557,000	28,236,000	1,665,000	2,269,000
Floating	121,181,000	219,800,000	—	—

### Long-term Indebtedness to Shareholders' Equity

At December 31, 2001, the Company's long-term indebtedness was \$539.5 million and total shareholders' equity amounted to \$134.8 million. The ratio of long-term indebtedness to shareholders' equity increased to 4.0 to 1 at the end of 2001 from 2.26 to 1 at the end of 2000, as a result of a larger decline in shareholders' equity than indebtedness due to losses incurred in the year.

### Repayment of Long-term Indebtedness

Approximately \$533.1 million of long-term indebtedness at December 31, 2001 is due within the next five years; 60% of that or \$318.6 million is in relation to the 10.5% Senior Subordinated Notes due December 1, 2006. In March 2002, the Company commenced an offer to purchase and consent solicitation process to purchase up to US\$112.5 million of outstanding Notes at 89% of the original principal amount.

### Cash Flow from Operations

Cash flow from operations, before changes in non-cash working capital, was \$152.7 million in 2001, representing an increase of \$43.0 million over the \$109.7 million generated in 2000. The funds were used to finance investment activities of \$82.0 million, a net reduction of \$58.5 million in long-term indebtedness, and purchases under a normal course issuer bid of \$10.3 million.

## Risks and Uncertainties

### Customer Concentration

#### Secure Transactions Division

In 2001, the Secure Transactions Division contributed approximately 46% of the Company's consolidated sales. A significant portion of its revenue is derived from its cheque, card and postage stamp printing businesses, all of which have a concentrated customer base.

With the divestiture of the Canadian cheque printing operation, the company has reduced its exposure to the risks associated with sales to financial institutions pursuant to long-term agreements. However, the loss of, or material reduction of, volume under the remaining contracts would have a material adverse effect on the results of the division. Although the Company believes that these contracts will continue to operate throughout their entire term and will be extended in the ordinary course of business, there can be no assurance that extensions will be exercised or that the contracts will be renewed at their scheduled expiration.

The postage stamp business derives a significant portion of its revenues from government contracts. Contracts are generally awarded in a competitive bidding process. The loss of these contracts could have a material adverse effect on the sales and earnings of the division.

### Maxxcom

Management's ongoing strategy is to acquire ownership stakes in well-managed businesses. The resulting diversity has allowed the division to minimize the effects that might arise from the loss of any one client or manager. However, management succession is very important to the ongoing results of the division because, as in any service business, the success of the Company is dependent upon the leadership of key executive and management personnel. If any of these individuals leave

the Company, the relationships they have with the Company's clients could be lost. Management has attempted to mitigate the risks with respect to these successions through various employment contracts, and shareholder, non-competition and non-solicitation agreements.

## Competition

Each of the Company's divisions operates in a highly competitive environment.

The Company's Secure Transactions Division competes primarily on the basis of quality, customer service, design capability and price. A number of the Company's competitors have greater resources than those available to the Company which may enable them to aggressively pursue the business of the Secure Transactions Division.

Maxxcom competes in an industry characterized by numerous firms of varying sizes, with no single firm or group of firms having a dominant position in the marketplace. Competitive factors include creative reputation, management, personal relationships, quality and reliability of service and expertise in particular niche areas of the marketplace. Although the price of services may be a competitive factor in obtaining new clients, it is generally of lesser importance once a client relationship has been established.

Additionally, there is a recent trend of large multinational organizations consolidating their marketing communications providers so that one firm provides these services to all international locations. As a result, marketing communications providers may experience the loss of clients or projects. To the extent that Maxxcom may lose business, and is unsuccessful in replacing it, the Company's business, financial condition or operating results may be affected in a materially adverse manner.

## Currency Fluctuations

Although the Company's financial results are reported in Canadian dollars, a significant portion of its sales and operating costs are denominated in U.S. dollars. Furthermore, an increasing portion of the Company's sales and operating costs are expected to be in U.S. currency. As a result, fluctuations in the exchange rate between the Canadian dollar and other currencies, particularly the U.S. dollar, may affect the Company's financial results and the Company's competitive position. The Company generally manages its exposure to foreign currency risk by matching its debt charges with cash flows of a common currency, and where appropriate, may hedge currency risks through foreign exchange contracts and currency swap agreements. There can be no assurance that such measures will be successful; however, management will attempt to mitigate these risks to the fullest extent available.

## Alternative Forms of Payment

Consumers and businesses in the North American marketplace have recently been introduced to various electronic and other forms of payment. The Company cannot conclusively determine what effect these alternate forms of payment may have on future average cheque usage by consumers or businesses. There can be no assurance that such factors will not have a material adverse effect on the future volumes of cheques produced by the Company or its revenues.

## New Accounting Pronouncements

### Business Combinations, Goodwill and Other Intangibles

In July 2001, the Canadian Institute of Chartered Accountants (the "CICA") and U.S. Financial Accounting Standards Board issued similar new accounting standards for business combinations, goodwill and other intangible assets. These standards provide new guidance on accounting for a business combination at the date a business combination is completed. Specifically, they require use of the purchase method of accounting for all business combinations initiated after June 30, 2001, thereby eliminating use of the pooling-of-interests method. These standards also require that goodwill and other intangible assets will no longer be amortized and will be tested for impairment at least annually and written down only when impaired. These statements will apply to existing goodwill and intangible assets, and must be adopted by the Company no later than January 1, 2002. The Company has not determined the impact of the adoption of these standards on its consolidated financial statements.

### Stock-Based Compensation

In January 2002, the CICA issued a new accounting standard for stock-based compensation and other stock-based payments. The new standard will require additional disclosures for options granted to employees and that a compensation cost be recorded for the fair value of options granted to non-employees. This standard will be adopted prospectively by the Company effective January 1, 2002. The Company has not determined the impact of the adoption of these standards on its consolidated financial statements.

## Foreign Currency Translation

The Accounting Standards Board has approved amendments to the CICA Handbook – Accounting, Section 1650, Foreign Currency Translation, which is effective for fiscal years commencing on or after January 1, 2002 and will be applied retroactively. The amendments eliminate the treatment of deferring and amortizing unrealized translation gains and losses on long-term monetary items. The Company has \$23.6 million of unamortized deferred translation losses included in other assets.

## Outlook

While 2001 was a difficult year for MDC, it served to re-focus both management and resources on the Company's core businesses and also provided market opportunities to dispose of assets and reduce indebtedness. Management strength was increased with the appointments of Jamie Johnson as President & Chief Operating Officer of MDC and of Harold Reiter as new CEO of Maxxcom. The development and implementation of the restructuring plan will provide a solid foundation for future growth. Management has successfully completed the divestiture of the discontinued operations of Regal and has crystallized significant value for shareholders of MDC through the sale of Davis + Henderson via an income trust offering. Proceeds received from these transactions were used to improve the balance sheet, reduce debt and leverage, and have provided the Company with the ability to re-deploy its capital into higher growth businesses.

Management is committed to the completion of the restructuring plan and to the divesting of the remainder of the Company's non-core assets over the next 12 months.

Maxxcom, Canada's leading marketing and communications services organization, and Custom Checks, which serves the growing U.S. direct-to-consumer cheque market, will continue as the principal drivers in MDC's future.

Sales and operating profits of Maxxcom are expected to benefit greatly not only from the general improvement expected in the North American economy, but also from actions taken this year to streamline the operation and position it for growth. The restructuring undertaken in 2001 has positioned Maxxcom to deliver a targeted mix of services in alignment with clients' needs. Maxxcom will continue to be selective in its search for additional accretive, tuck-under acquisition opportunities throughout the coming year.

Through the cheque and card group, the Secure Transaction Division will continue to provide outsourced business services to financial institutions. The Company's investment in the high growth areas of the smart card industry and the direct-to-consumer cheque market is expected to restore profitability and produce greater returns.

## Forward-Looking Statements

The Company and its representatives periodically make written and spoken forward-looking statements, including those contained in the annual report. By their nature, forward-looking statements are subject to risks and uncertainties that could result in actual performance being materially different from anticipated results. The Company cautions readers, when making decisions, to consider the risks and uncertainties of forward-looking statements.

## Selected Consolidated Quarterly Financial Information

(in thousands of Canadian dollars, except per share amounts)

	First Quarter ended March 31		Second Quarter ended June 30		Third Quarter ended September 30		Fourth Quarter ended December 31	
	2001	2000	2001	2000	2001	2000	2001	2000
Sales	285,052	277,160	279,653	273,964	262,343	290,941	286,224	324,717
Income (loss) from continuing operations	2,886	22,627	(468)	3,242	(144,670)	4,063	42,892	11,350
Loss from discontinued operations	—	—	(40,000)	—	—	—	—	—
Net income (loss) for the period	2,886	22,627	(40,468)	3,242	(144,670)	4,063	42,892	11,350
Earnings per share								
Continuing operations								
Basic	\$ 0.14	\$ 1.24	\$ (0.06)	\$ 0.15	\$ (8.59)	\$ 0.21	\$ 2.50	\$ 0.64
Fully diluted	\$ 0.14	\$ 1.05	\$ (0.06)	\$ 0.15	\$ (8.59)	\$ 0.19	\$ 1.30	\$ 0.53
Reported								
Basic	\$ 0.14	\$ 1.24	\$ (2.43)	\$ 0.15	\$ (8.59)	\$ 0.21	\$ 2.50	\$ 0.64
Fully diluted	\$ 0.14	\$ 1.05	\$ (2.43)	\$ 0.15	\$ (8.59)	\$ 0.19	\$ 1.30	\$ 0.53

# Management's Report

The accompanying consolidated financial statements have been prepared by management and approved by the Board of Directors of the Company. Management is responsible for the preparation and presentation of these financial statements and all the financial information contained within this annual report within reasonable limits of materiality. The financial statements have been prepared in accordance with generally accepted accounting principles in Canada. In the preparation of these statements, estimates are sometimes necessary because a precise determination of certain assets and liabilities is dependent on future events. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying consolidated financial statements. The financial information throughout the text of this annual report is consistent with that in the financial statements.

To assist management in discharging these responsibilities, the Company maintains a system of internal control which is designed to provide reasonable assurance that its assets are safeguarded, that transactions are executed in accordance with management's authorization and that the financial records form a reliable base for the preparation of accurate and timely financial information.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards and applicable laws, and for the maintenance of proper standards of conduct in its activities.

BDO Dunwoody LLP, Chartered Accountants, are appointed by the shareholders and have audited the consolidated financial statements in accordance with generally accepted auditing standards. Their report outlines the nature of their audit and expresses their opinion on the consolidated financial statements of the Company.

Annually, the Board of Directors appoints an Audit Committee composed of at least three directors who are not members of management. The Audit Committee meets periodically with management and the auditors to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues. It is responsible for reviewing the annual and interim consolidated financial statements and the report of the auditors. The Audit Committee reports the results of such review to the Board and makes recommendations with respect to the appointment of the Company's auditors. In addition, the Board may refer to the Audit Committee on other matters and questions relating to the financial position of the Company and its affiliates.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and for approving the consolidated financial statements for presentation to shareholders.



Miles S. Nadal  
Chairman  
& Chief Executive Officer



Peter M. Lewis  
Executive Vice-President  
& Chief Financial Officer

March 28, 2002

**To the Shareholders of MDC Corporation Inc.**

We have audited the consolidated balance sheets of MDC Corporation Inc. as at December 31, 2001, 2000 and 1999 and the consolidated statements of retained earnings (deficit), operations and cash flows for each of the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2001, 2000 and 1999 and the results of its operations and its cash flows for each of the years then ended in accordance with generally accepted accounting principles in Canada.

*BDO Dunwoody LLP*

Chartered Accountants  
Toronto, Ontario

March 28, 2002

**Consolidated Balance Sheets***(in thousands of Canadian dollars)*

December 31	2001	2000	1999
<b>Assets</b>			
Current			
Cash and cash equivalents	\$ 59,301	\$ 61,031	\$ 35,308
Accounts receivable (note 2)	142,769	157,931	129,284
Inventory	23,282	46,191	53,504
Prepaid expenses and sundry	11,969	42,231	31,761
Future income taxes	28,000	—	—
	265,321	307,384	249,857
Capital and other assets (note 3)	190,248	290,213	237,771
Goodwill (note 4)	462,746	509,853	418,696
	\$ 918,315	\$ 1,107,450	\$ 906,324
<b>Liabilities and Shareholders' Equity</b>			
Current			
Bank indebtedness (note 5)	\$ —	\$ —	\$ 3,204
Accounts payable and accrued liabilities	204,994	224,775	161,895
Deferred revenue	23,771	16,325	19,728
Current portion of long-term indebtedness (note 5)	12,049	9,879	12,797
	240,814	250,979	197,624
Long-term indebtedness (note 5)	527,468	558,622	487,314
Future income taxes	—	20,645	—
	768,282	830,246	684,938
Minority interest	15,253	25,356	6,022
Subsequent events (note 17)			
Shareholders' equity			
Share capital (note 6)	142,599	140,583	153,690
Other paid-in capital (note 7)	51,943	47,956	44,286
Cumulative translation adjustment (note 8)	13,892	(4,618)	(11,301)
Retained earnings (deficit)	(73,654)	67,927	28,689
	134,780	251,848	215,364
	\$ 918,315	\$ 1,107,450	\$ 906,324

The accompanying summary of Significant Accounting Policies and Notes are an integral part of these financial statements.

On behalf of the Board:



Thomas N. Davidson  
Director



Stephen M. Pustil  
Director

## Consolidated Statements of Operations

(in thousands of Canadian dollars, except per share amounts)

For the years ended December 31	2001	2000	1999
Sales	\$ 1,113,272	\$ 1,166,782	\$ 828,449
Cost of sales	558,295	604,165	426,723
Gross profit	554,977	562,617	401,726
Operating expenses	436,633	435,836	286,079
Operating income before other income (charges)	118,344	126,781	115,647
Other income (charges)			
Restructuring, dispositions and other charges (note 9)	(91,612)	24,389	—
Amortization	(40,656)	(39,200)	(30,588)
Interest, net	(50,587)	(47,347)	(39,560)
	(182,855)	(62,158)	(70,148)
Income (loss) before income taxes, goodwill charges and minority interest	(64,511)	64,623	45,499
Income taxes (recovery) (note 10)	(25,741)	8,930	13,473
Income (loss) before goodwill charges and minority interest	(38,770)	55,693	32,026
Goodwill charges, net of income tax recovery of \$3,576 (2000 – \$1,634, 1999 – \$763)	67,181	11,703	9,019
Minority interest (recovery)	(6,591)	2,708	—
Income (loss) from continuing operations	(99,360)	41,282	23,007
Loss from discontinued operations (note 12)	(40,000)	—	—
Net income (loss) for the year	\$ (139,360)	\$ 41,282	\$ 23,007
Earnings per share (note 11)			
Income (loss) before goodwill charges and minority interest			
Basic	\$ (2.43)	\$ 3.09	\$ 1.70
Fully diluted	\$ (2.43)	\$ 2.58	\$ 1.49
Continuing operations			
Basic	\$ (6.02)	\$ 2.26	\$ 1.19
Fully diluted	\$ (6.02)	\$ 1.92	\$ 1.08
Reported			
Basic	\$ (8.39)	\$ 2.26	\$ 1.19
Fully diluted	\$ (8.39)	\$ 1.92	\$ 1.08

The accompanying summary of Significant Accounting Policies and Notes are an integral part of these financial statements.

## Consolidated Statements of Retained Earnings (Deficit)

(in thousands of Canadian dollars)

For the years ended December 31	2001	2000	1999
Retained earnings, beginning of year	\$ 67,927	\$ 28,689	\$ 7,563
Net income (loss) for the year	(139,360)	41,282	23,007
	(71,433)	69,971	30,570
Allocation to other paid-in capital, net of income tax recovery of \$1,766 (2000 – \$1,626, 1999 – \$1,496)	(2,221)	(2,044)	(1,881)
Retained earnings (deficit), end of year	\$ (73,654)	\$ 67,927	\$ 28,689

The accompanying summary of Significant Accounting Policies and Notes are an integral part of these financial statements.

**Consolidated Statements of Cash Flows**

(in thousands of Canadian dollars)

For the years ended December 31	2001	2000	1999
<b>Cash provided by (used in)</b>			
<b>Operating activities</b>			
Income (loss) from continuing operations	\$ (99,360)	\$ 41,282	\$ 23,007
Items not involving cash			
Restructuring, dispositions and other charges – non-cash	166,847	17,811	—
Restructuring, dispositions and other charges — accrued in accounts payable	11,866	—	—
Goodwill writedown	50,517	—	—
Amortization	60,896	52,537	40,370
Future income taxes	(29,962)	(4,924)	7,453
Minority interest and other	(8,110)	2,977	(1,095)
	152,694	109,683	69,735
Changes in non-cash working capital	(5,206)	(4,985)	(4,774)
<b>Cash flows from operating activities</b>	<b>147,488</b>	<b>104,698</b>	<b>64,961</b>
<b>Investing activities</b>			
Investments and acquisitions, net	(25,250)	(48,055)	(74,839)
Capital assets, net	(25,133)	(35,302)	(41,268)
Other assets	(31,643)	(38,704)	(58,238)
<b>Cash flows used in investing activities</b>	<b>(82,026)</b>	<b>(122,061)</b>	<b>(174,345)</b>
<b>Financing activities</b>			
Short-term indebtedness	—	(3,192)	625
Proceeds on issuance of long-term indebtedness	135,722	63,148	126,614
Repayment of long-term indebtedness	(194,180)	(7,231)	(7,436)
Issuance of share capital	1,116	1,859	12,604
Repurchase of share capital	(10,300)	(14,966)	(5,932)
<b>Cash flows from (used in) financing activities</b>	<b>(67,642)</b>	<b>39,618</b>	<b>126,475</b>
Foreign exchange gain (loss) on cash held in foreign currencies	450	3,468	(1,940)
<b>Increase (decrease) in cash and cash equivalents during the year</b>	<b>(1,730)</b>	<b>25,723</b>	<b>15,151</b>
Cash and cash equivalents, beginning of year	61,031	35,308	20,157
<b>Cash and cash equivalents, end of year</b>	<b>\$ 59,301</b>	<b>\$ 61,031</b>	<b>\$ 35,308</b>
<b>Supplemental Cash Flow Information</b>			
Cash paid for interest	\$ 54,175	\$ 51,530	\$ 41,878
Cash paid for income taxes	\$ 9,671	\$ 9,900	\$ 4,605

The accompanying summary of Significant Accounting Policies and Notes are an integral part of these financial statements.

December 31, 2001, 2000 and 1999

### Principles of Consolidation

The financial statements include the accounts of the Company and any effectively controlled subsidiary companies and are prepared in conformity with generally accepted accounting principles in Canada. Interests in joint ventures are recorded using the proportionate consolidation method. Acquisitions are consolidated from the effective date of acquisition with intercompany transactions and accounts eliminated upon consolidation.

### Investments

Investments in which the Company does not have control or have significant influence are valued at the lower of cost or market.

### Inventory

Inventory is valued at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis.

### Customer Acquisition Costs

The Company capitalizes costs for direct response advertising and expenses the costs over the period of expected future benefit. The expense corresponds to the expected sales cycle of the advertising material based on actual advertising responses.

### Capital Assets

Capital assets are recorded at cost. Amortization is provided as follows:

Buildings	4%–5% straight-line
Computer, furniture and fixtures	20%–50% declining balance
Machinery and equipment	10%–20% declining balance
Leasehold improvements	straight-line over term of the lease

### Deferred Charges

The Company capitalizes direct costs related to development of new products and services until the commencement of commercial operations, at which time all related costs are amortized on a straight line basis over their estimated useful life.

### Deferred Finance Costs

Deferred finance costs are amortized over the term of the related indebtedness.

### Future Income Taxes

On January 1, 2000 the Company adopted the liability method of tax allocation for accounting for income taxes, as provided for in the recommendations of The Canadian Institute of Chartered Accountants. Under the liability method of tax allocation, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Prior to the adoption of the new recommendations, income tax expense was determined using the deferral method of tax allocation. Under this method, future tax expense was based on items of income and expense that were reported in different years in the financial statements and tax returns and measured at the tax rate in effect in the year the difference originated.

There was no material impact in adopting these recommendations.

### Foreign Currency Translation

With the exception of the Company's foreign subsidiaries, foreign currency assets and liabilities carried at current prices are translated into Canadian dollars using the rate of exchange in effect at the year-end; other foreign currency assets and liabilities are translated using the rates of exchange in effect at the dates of the transaction; long-term monetary assets and liabilities with a fixed term which have been hedged are translated using the rate per the hedge agreements; revenue and expense items are translated at the average monthly rate of exchange for the year, except for

amortization of capital and other assets which is translated at the historical rates of the related assets. The asset and liability accounts of foreign subsidiaries' self-sustaining operations are translated using the rate of exchange in effect at the year-end and revenues and expenses are translated at the average monthly rates during the year.

The unrealized foreign exchange gains and losses on translation of the accounts of foreign subsidiaries are reflected as a separate component of shareholders' equity. The unrealized foreign exchange gains and losses relating to translation of long-term monetary assets and liabilities with a fixed term are deferred and amortized over the remaining life of the related term unless identified as a hedge against the net investment of foreign subsidiaries. All other foreign exchange gains and losses are included in net income or loss in the current period.

### **Goodwill**

Goodwill represents the price paid for acquisitions in excess of the fair market value of net tangible assets acquired. The Company amortizes goodwill on a straight-line basis over periods ranging from 10 to 40 years. Goodwill arising on acquisitions completed after June 30, 2001 is not amortized. The carrying value of goodwill is assessed annually by reviewing the estimated future undiscounted cash flows of the underlying businesses of the Company. Any permanent impairment in the carrying value of goodwill is expensed in the period in which the assessment is made.

### **Retirement Plans**

The current service cost of pension and other post-employment plans (such as medical and dental care, life insurance and compensated absences) is charged to income annually. Cost is computed on an actuarial basis using the projected benefit method and based on management's best estimates of investment yields, salary escalation and other factors. Adjustments resulting from plan amendments, experience gains and losses, or changes in assumptions are amortized over the remaining average service term of active employees.

### **Revenue Recognition**

Revenue is recognized using the percentage of completion method with respect to contracts having a specified time period for the performance of the service. Percentage of completion is determined based either on (a) the fair value of the project at each particular stage relative to its total fair value on completion, or, (b) the costs incurred to date relative to the expected total costs to be incurred upon completion. Work in progress is estimated as the portion of revenue which has been earned but not billed. Customer billings in advance are recorded as deferred revenue. Potential losses, if any, on work in progress are provided for as soon as the possibility of a loss becomes apparent.

All other revenue is recorded when the service is completed and/or the product is delivered.

### **Financial Instruments**

The Company's financial instruments consist of cash and short-term investments, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, long-term indebtedness and derivative financial instruments. Derivative financial instruments are used by the Company to manage its exposure to market risks relating to interest rates and foreign currency exchange rates.

#### **Credit Risk**

The Company's financial assets that are exposed to credit risk consist primarily of cash, accounts receivable and derivative financial instruments. The Company, in its normal course of business, is exposed to credit risk from its customers. The Company is exposed to credit loss in the event of non-performance by counterparties to the derivative financial instruments but does not anticipate non-performance by these counterparties. To reduce counterparty credit exposure, the Company deals only with large credit-worthy financial institutions, and limits credit exposure to each.

#### **Fair Value**

The carrying value of long-term indebtedness (note 5) that bears interest at fixed rates is based on its quoted market price or on discounted future cash flows using rates currently available for debt of similar terms and maturities if the quoted market price was not available. The carrying value of other financial instruments, cash and short-term investments, accounts receivable, bank indebtedness and accounts payable and accrued liabilities, approximates fair value due to their short-term maturities. The fair value of derivative financial instruments, foreign exchange contracts and swaps was approximately \$7,000 that the Company would pay to settle the contracts at the reporting date.

**Cash and Cash Equivalents**

The Company considers all cash and highly liquid investments purchased with an initial maturity of three months or less to be cash or cash equivalents.

The Company maintains its cash in bank deposit accounts that, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risks on cash and cash equivalents.

**Stock-Based Compensation**

The Company has a stock-based compensation plan (note 6). No compensation expense is recognized for the plan when stock options are issued to directors, officers, employees or consultants of the Company. Any consideration paid by such individuals to the Company on exercise of the stock options or purchase of stock is credited to share capital.

**Accounting Estimates**

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.

December 31, 2001, 2000 and 1999 (in thousands of Canadian dollars, except per share amounts)

## 1. Acquisitions

The following are the acquisitions during the period. These acquisitions were accounted for by the purchase method and consolidated from the respective effective date of acquisition.

### 1999 Acquisitions:

- ▶ Effective April 1, 1999, the Company acquired 80% of Colle & McVoy, Inc.
- ▶ Effective July 1, 1999, the Company acquired the remaining shares of Check Gallery Inc.
- ▶ Effective October 1, 1999, the Company acquired Allard-Associates, Inc. and amalgamated it with LBJ-FRB Communications Inc. to form Allard Johnson Communications Inc.
- ▶ Effective November 1, 1999, the Company acquired 50.1% of Accent Marketing Services, LLC.
- ▶ Effective November 30, 1999, the Company acquired 70% of Fletcher Martin Associates LLC.

### 2000 Acquisitions:

- ▶ Effective January 1, 2000, the Company acquired 100% of each of Basset Direct Inc. and Corelan Communications.
- ▶ Effective March 1, 2000, the Company acquired 100% of Fiola TMC, Inc.
- ▶ Effective March 23, 2000, the Company acquired additional shares in various operating subsidiary companies.
- ▶ Effective April 1, 2000, the Company acquired 80% of TargetCom LLC and 50.1% of each of Bang!Zoom LLC and E-Telligence LLC.
- ▶ Effective April 30, 2000, the Company acquired 100% of Wernimont & Paullus Inc.
- ▶ Effective July 31, 2000, the Company acquired 100% of Mackenzie Marketing Inc.
- ▶ Effective August 1, 2000, the Company acquired 80% of Pavlika Chinnici Direct, LLC.
- ▶ Effective September 1, 2000, the Company acquired 100% of Bratskeir & Company, Inc. and 60% of Interfocus Network Limited.

### 2001 Acquisitions:

- ▶ Effective January 8, 2001, the Company acquired 49% of Crispin Porter + Bogusky LLC.
- ▶ Effective January 31, 2001, the Company acquired 100% of the Canadian card services business of MIST Inc.
- ▶ Effective February 15, 2001, the Company acquired an additional 16% of CyberSight Acquisition Co. Inc.
- ▶ Effective March 1, 2001, the Company acquired 100% of The Marketing Department LLC.
- ▶ Effective June 15, 2001, the Company acquired 100% of McCool Communications.
- ▶ Effective July 25, 2001, the Company acquired 79.17% of Grange Advertising Limited.

The assets acquired and the consideration given are as follows:

December 31	2001	2000	1999
Net assets acquired, at fair value			
Assets, net of liabilities	\$ 6,862	\$ 2,923	\$ 11,462
Goodwill	78,968	112,974	65,682
	<b>\$ 85,830</b>	<b>\$ 115,897</b>	<b>\$ 77,144</b>
Consideration			
Cash and promissory notes	\$ 38,274	\$ 65,378	\$ 73,344
Common A shares issued	11,200	—	1,165
Contingent consideration – current year acquisitions	970	24,261	—
Contingent consideration – prior year acquisitions	22,096	20,097	—
Other acquisition costs	13,290	6,161	2,635
	<b>\$ 85,830</b>	<b>\$ 115,897</b>	<b>\$ 77,144</b>

In addition to the consideration paid by the Company in respect of its acquisitions, additional consideration may be payable based on the achievement of certain threshold levels of earnings. Based on the current year's earnings, \$19,804 (2000 – \$44,981, 1999 – \$8,341) of additional consideration was accrued related to current and prior year acquisitions and is reflected in accounts payable and accrued liabilities. Should the current level of earnings be maintained by certain acquired companies, approximately \$17,904 of additional consideration would be accrued in 2002 and paid in 2003, and \$3,886 accrued and paid thereafter.

## 2. Accounts Receivable

December 31	2001	2000	1999
Receivables – trade	\$ 119,358	\$ 138,831	\$ 119,753
– other	9,525	5,496	—
Unbilled work in progress	13,886	13,604	9,531
	<b>\$ 142,769</b>	<b>\$ 157,931</b>	<b>\$ 129,284</b>

## 3. Capital and Other Assets

December 31	2001		2000		1999	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization	Cost	Accumulated Amortization
<b>(a) Capital assets</b>						
Land	\$ 1,430	\$ —	\$ 1,824	\$ —	\$ 1,974	\$ —
Buildings	7,755	1,697	9,968	1,983	13,570	2,598
Computer, furniture and fixtures	103,326	57,062	114,484	60,653	91,816	46,264
Machinery and equipment	76,628	32,002	134,117	56,818	133,479	52,815
Leasehold improvements	22,095	10,546	30,853	13,677	27,694	10,659
	<b>211,234</b>	<b>101,307</b>	<b>291,246</b>	<b>133,131</b>	<b>268,533</b>	<b>112,536</b>
<b>(b) Other assets</b>						
Investments, at cost net of provisions	606	—	10,845	—	1,691	—
Long-term notes receivable, net of provisions	15,220	—	20,417	—	27,329	—
Customer acquisition costs	—	—	33,429	—	27,366	—
Deferred charges	19,955	11,449	24,896	11,706	20,614	11,038
Deferred finance costs	21,371	7,349	25,300	9,748	26,464	7,736
Deferred foreign exchange	44,236	10,068	25,576	5,935	14,116	3,922
Deferred swap settlement income	(18,900)	(8,347)	(18,900)	(6,236)	(18,900)	(4,125)
Future/deferred income taxes	18,352	—	31,688	—	1,665	—
	<b>100,840</b>	<b>20,519</b>	<b>153,251</b>	<b>21,153</b>	<b>100,345</b>	<b>18,571</b>
	<b>312,074</b>	<b>121,826</b>	<b>444,497</b>	<b>154,284</b>	<b>368,878</b>	<b>131,107</b>
Cost less accumulated amortization	<b>\$ 190,248</b>		<b>\$ 290,212</b>		<b>\$ 268,533</b>	

Included in capital assets are assets under capital leases with a cost of \$16,312 (2000 – \$17,393, 1999 – \$25,826) and accumulated amortization of \$5,288 (2000 – \$4,948, 1999 – \$5,778). Long-term notes receivable ("Notes") include \$22,457 owing from employees, officers and directors of the Company and its subsidiaries, of which \$7,503 are on account of share purchase loans and are secured by shares with a market value of \$2,483 as at December 31, 2001. The Notes bear interest from 0% to prime plus 1/2% with no specific terms of repayment. During the year, a provision of \$3,814 (2000 – \$11,300, 1999 – Nil) relating to employee notes receivable has been recorded.

**4. Goodwill**

December 31	2001	2000	1999
Cost	\$ 514,741	\$ 553,519	\$ 449,488
Accumulated amortization	51,995	43,666	30,792
	<b>\$ 462,746</b>	<b>\$ 509,853</b>	<b>\$ 418,696</b>

**5. Long-term Indebtedness**

December 31	2001	2000	1999
10.5% unsecured Senior Subordinated Notes, face value US\$200,000 due December 1, 2006, interest payable semi-annually	\$ 318,560	\$ 299,900	\$ 288,440
Davis + Henderson, Limited Partnership term facility, due December 2004	80,000	—	—
7% convertible debentures, face value \$50,000, due January 8, 2007; present value of interest payable until January 8, 2002	—	3,271	6,328
6% convertible subordinated notes, due March 2002	5,000	4,408	4,139
6.75% mortgage payable	—	2,531	2,647
7.84% mortgage payable, due January 2012	5,500	—	—
Notes payable and other bank loans	11,857	13,823	12,297
MDC credit facility, includes US\$7,000 (2000 – US\$120,470, 1999 – US\$101,000)	11,150	184,814	163,907
Maxxcom credit facility, includes US\$34,500 (2000 – US\$28,300)	56,133	44,436	—
Maxxcom subordinated debenture, due September 2005	40,000	—	—
	<b>528,200</b>	<b>553,183</b>	<b>477,758</b>
Obligations under capital leases, interest at 7.37% to 11.67%	11,317	15,318	22,353
	<b>539,517</b>	<b>568,501</b>	<b>500,111</b>
Less: Current portion	12,049	9,879	12,797
	<b>\$ 527,468</b>	<b>\$ 558,622</b>	<b>\$ 487,314</b>

The MDC credit facility provides for an aggregate maximum borrowing under the facility of up to US\$15,000 bearing interest at rates which depend on certain of the Company's financial ratios and which vary in accordance with borrowing rates in Canada and the United States. The credit facility and bank indebtedness are secured by a general security agreement, a pledge of shares of subsidiaries and an assignment of intercompany debt. The MDC credit facility terminates on June 30, 2002.

The Davis + Henderson, Limited Partnership term facility provides for a maximum borrowing under the facility of up to \$108,000 and is due in December 2004. This credit facility is secured by a general security agreement covering all of the assets of Davis + Henderson, Limited Partnership, the general partner and a pledge of shares of the general partner.

The Maxxcom stand-alone credit facility provides for an aggregate maximum borrowing of up to \$80,000 bearing interest at rates which depend on certain of Maxxcom's financial ratios and which vary in accordance with borrowing rates in Canada and the United States. The facility is secured by a general security agreement, a pledge of shares of Maxxcom's subsidiaries and an assignment of intercompany debt.

On July 11, 2001, Maxxcom issued a \$40,000 subordinated secured debenture which bears interest at bankers' acceptance plus 8%. It is secured by a general security agreement, a pledge of shares of Maxxcom's subsidiaries and intercompany debt and is ranked second to the Maxxcom stand-alone credit facility. In connection with the debenture, Maxxcom issued five-year warrants to the debenture holder which provide for the purchase of up to 1,349,850 Maxxcom shares at a price of \$9 per share. No value was assigned to the warrants.

The Company has entered into a cross currency swap agreement which has converted the interest obligation on US\$125,000 of the unsecured Senior Subordinated Notes from US\$ to Cdn\$ and carries a revised coupon of bankers' acceptance plus 660 basis points payable semi-annually. The cross currency swap agreement terminates in December 2006. At December 31, the variable interest rate was approximately 8.7%. The interest rate swap is cancellable by either party on August 23, 2003.

The Company has entered into an interest rate swap agreement which has converted the interest obligation on US\$50,000 of the unsecured Senior Subordinated Notes from 10.5% to variable interest rates. At December 31, the variable rate of interest was approximately 6.3%. The interest rate swap terminates in December 2006, unless the counterparty exercises its option to cancel on December 1, 2003.

The notes payable and other bank loans bear interest at rates ranging from prime less 0.5% to a fixed rate of 8.95% and are due between 2002 and 2004. The other bank loans are secured by a general security agreement with a specific subsidiary or letters of credit under the MDC credit facility.

The mortgage and capital leases are secured by specific equipment, land and building.

In accordance with the Company's accounting policy on financial instruments, the net proceeds of \$47,350 of the 7% convertible debentures with the face value \$50,000 were allocated \$14,350 to long-term indebtedness and \$33,000 to other paid-in capital within shareholders' equity. Additional amounts are capitalized annually to the equity portion of the notes in order that the equity portion of the notes will equal the face value at maturity. The 7% convertible debentures are convertible at the option of the holder into Class A shares at a rate of 49.261 Class A shares per \$1 of debenture. The 7% convertible debentures were redeemable by the Company to December 30, 2001 provided the trading price of the Class A shares was at least \$25.375. Thereafter the 7% convertible debentures are redeemable by the Company at par. The Company may, at its option, satisfy the obligation to repay the principal amount of the debentures on redemption or at maturity in freely tradable Class A shares. The debentures are unsecured and rank subordinate to all other indebtedness.

The 6% convertible subordinated notes were originally allocated \$3,057 to long-term indebtedness and \$1,943 to other paid-in capital within shareholders' equity. Additional interest is capitalized annually to the indebtedness portion of the notes in order that the indebtedness portion will equal the face value at maturity. The 6% convertible subordinated notes are convertible at any time into Class A shares of the Company at a rate of 66.667 Class A shares for each \$1 of note. The notes are unsecured and rank *pari passu* with the unsecured Senior Subordinated Notes and subordinate to all other bank and long-term indebtedness. Interest is paid quarterly.

The approximate principal portion of long-term indebtedness repayable in each of the five years subsequent to December 31, 2001 is as follows:

2002	\$	12,049
2003		9,824
2004		82,632
2005		109,149
2006		319,418
Thereafter		6,445
Total	\$	539,517

Total interest on long-term indebtedness was \$52,727 (2000 – \$51,463, 1999 – \$43,251).

The Company's estimate of the fair value of its long-term indebtedness is as follows:

December 31	2001	2000	1999
Maturing within five years	\$ 475,000	\$ 260,000	\$ 170,000
Maturing after five years	6,000	280,000	320,000
	\$ 481,000	\$ 540,000	\$ 490,000

**6. Share Capital**

The authorized share capital of the Company is as follows:

- ▶ An unlimited number of Class A shares (subordinate voting shares) carrying one vote each, entitled to dividends equal to or greater than Class B shares, convertible at the option of the holder into one Class B share for each Class A share after the occurrence of certain events related to an offer to purchase all Class B shares.
- ▶ An unlimited number of Class B shares carrying 20 votes each, convertible at any time at the option of the holder into one Class A share for each Class B share.
- ▶ An unlimited number of non-voting preference shares issuable in series.

Changes to the Company's issued and outstanding share capital are as follows:

	Shares	Amount
<b>Class A</b>		
Balance December 31, 1998	16,690,448	\$ 145,384
Shares issued by prospectus	415,000	5,810
Shares issued by private placement	312,700	4,404
Share options and warrants exercised	239,359	3,057
Shares issued on purchase of shares of Allard Associates, Inc.	85,150	1,165
Shares acquired and cancelled pursuant to a normal course issuer bid	(454,000)	(5,932)
Share issue costs, net of income tax recovery of \$267	—	(400)
Conversion of Class B shares	1,093	—
Balance December 31, 1999	17,289,750	153,488
Share options and warrants exercised	158,360	1,859
Shares acquired and cancelled pursuant to a normal course issuer bid	(1,186,801)	(14,966)
Balance December 31, 2000	16,261,309	140,381
Share options exercised	112,025	1,116
Shares acquired and cancelled pursuant to a normal course issuer bid	(841,800)	(10,300)
Shares issued in exchange for CyberSight Acquisition Co., Inc. shares	933,337	11,200
Balance December 31, 2001	<b>16,464,871</b>	<b>\$ 142,397</b>
<b>Class B</b>		
Balance December 31, 1998	451,563	\$ 202
Conversion to Class A shares	(1,093)	—
Balance December 31, 1999, 2000 and 2001	450,470	\$ 202
<b>Series 3 Preference Shares</b>		
Balance, December 31, 1998 and 1999	—	\$ —
Shares issued by private placement	3,800,000	—
Balance December 31, 2000	3,800,000	—
Shares converted to CyberSight Acquisition Co., Inc. shares	(3,800,000)	—
Balance December 31, 2001	<b>—</b>	<b>\$ —</b>
<b>Total Class A and Class B Share Capital</b>		
2001	<b>16,915,341</b>	<b>\$ 142,599</b>
2000	16,711,779	\$ 140,583
1999	17,740,220	\$ 153,690

The Company has an employee share option incentive plan, which currently may grant up to 2,331,112 options to employees, officers, directors and consultants of the Company. All options granted are for a term of no more than five years from the date of grant and vest 20% on the date of grant and a further 20% on each anniversary date.

The Company has reserved a total of 5,339,693 Class A shares in order to meet its obligations under various conversion rights, warrants and employee share options. At December 31, 2001 there were 473,267 shares available for future option grants.

Information related to share option transactions over the past three years is summarized as follows:

	Options Outstanding		Options Exercisable	
	Weighted Average Number Outstanding	Weighted Average Price per Share	Number Outstanding	Price per Share
Balance, December 31, 1998	2,206,239	\$ 11.27	651,858	\$ 12.42
Granted	878,334	14.87		
Exercised	(239,359)	13.34		
Cancelled	(378,350)	12.71		
Balance, December 31, 1999	2,466,864	12.06	1,184,154	11.33
Granted	277,334	12.78		
Exercised	(141,694)	11.35		
Cancelled	(346,225)	13.25		
Balance, December 31, 2000	2,256,279	12.01	1,347,556	11.46
Granted	130,000	9.19		
Exercised	(112,025)	9.98		
Cancelled	(416,409)	11.81		
Balance, December 31, 2001	1,857,845	\$ 11.89	1,314,736	\$ 11.67

Share options outstanding at December 31, 2001 are summarized as follows:

Range of Exercise Prices	Number Outstanding	Options Outstanding		Options Exercisable	
		Weighted Average Contractual Life	Weighted Average Price per Share	Number Exercisable	Weighted Average Price per Share
\$ 3.86 – \$ 9.99	470,717	1.1	\$ 8.46	442,717	\$ 8.65
\$10.00 – \$11.99	530,811	2.6	10.46	321,015	10.41
\$12.00 – \$14.25	503,483	1.9	13.63	349,937	13.77
\$14.26 – \$18.00	352,834	2.5	16.59	201,067	16.69

## 7. Other Paid-in Capital

December 31	2001	2000	1999
Balance beginning of year	\$ 47,956	\$ 44,286	\$ 40,446
Allocation from retained earnings	3,987	3,670	3,311
	\$ 51,943	\$ 47,956	\$ 43,757

## 8. Cumulative Translation Adjustment

This adjustment represents the net unrealized foreign currency translation gain (loss) on the Company's net investment in self-sustaining foreign operations in the United States, the United Kingdom and Australia.

**9. Restructuring, Dispositions and Other Charges**

For the years ended December 31	2001	2000	1999
Cash charges	\$ (21,158)	\$ —	\$ —
Non-cash charges against specific assets	(166,847)	(17,811)	—
Gain on disposal of assets	96,393	42,200	—
	<b>\$ (91,612)</b>	<b>\$ 24,389</b>	<b>\$ —</b>

During the year, the Company identified the businesses that were core to its goal of providing outsourced services to financial institutions and developed a plan to maximize the returns in those businesses and construct an orderly exit from non-core activities. This plan includes a reduction in the estimated useful life of deferred customer acquisition costs in the direct-to-consumer cheque market as a result of the absence of predictability in the direct response market, extensive cost reduction initiatives across the organization, including an approximate 15% reduction in the Company's workforce, the exit from certain leased facilities and the provisions against specific assets connected with various non-core businesses which will be exited in the foreseeable future. The resulting charge comprises non-cash charges of \$166,847, which comprises writedowns in customer acquisition costs, and other specific assets. Cash charges total \$21,158 and relate primarily to employee termination costs and vacated lease premise costs. Cash charges of \$9,292 have been paid with the balance of \$11,866 included in accounts payable.

In connection with this plan, additional goodwill provisions of \$50,517 have been recorded in the year.

There were no indications of permanent impairment of these assets prior to the restructuring actions.

**10. Income Taxes**

The Company's provision (recovery) for income taxes is comprised as follows:

For the years ended December 31	2001	2000	1999
Current	\$ 645	\$ 12,220	\$ 9,083
Future/deferred	(29,962)	(4,924)	7,453
Recovery of taxes due to utilization of losses and unrecorded deferred tax debits of prior years	—	—	(3,826)
	<b>\$ (29,317)</b>	<b>\$ 7,296</b>	<b>\$ 12,710</b>

Reconciliation to statutory rates is as follows:

For the years ended December 31	2001	2000	1999
Provision for income taxes based on combined basic Canadian federal and provincial tax rate of 42.1% (2000 – 44.0%, 1999 – 44.3%)	\$ (56,948)	\$ 22,566	\$ 15,836
Increase (decrease) in taxes resulting from permanent differences			
– Capital gains	(11,406)	(13,291)	—
– Other, including non-deductible goodwill charges	24,203	(1,979)	700
Losses not recognized for income tax purposes	14,834	—	—
Recovery of taxes due to realization of losses and unrecorded deferred tax debits of prior years	—	—	(3,826)
Total provision (recovery)	<b>\$ (29,317)</b>	<b>\$ 7,296</b>	<b>\$ 12,710</b>

Disclosed on the Statements of Operations as follows:

For the years ended December 31	2001	2000	1999
Income taxes (recovery)	\$ (25,741)	\$ 8,930	\$ 13,473
Recovery of income taxes related to goodwill charges	(3,576)	(1,634)	(763)
	<b>\$ (29,317)</b>	<b>\$ 7,296</b>	<b>\$ 12,710</b>

The tax effects of significant items comprising the Company's future tax assets and liabilities as at December 31 are as follows:

For the years ended December 31	2001	2000
<b>Future tax assets</b>		
Differences between book and tax basis of equity transaction costs	\$ 3,315	\$ 3,778
Loss carryforwards related to equity transaction costs	8,814	8,351
Operating loss carryforwards	34,223	19,559
	<b>\$ 46,352</b>	<b>\$ 31,688</b>
<b>Future tax liabilities</b>		
Difference between book and tax basis of capital and other assets	\$ —	\$ 23,240
Operating loss carryforwards	—	(2,595)
	<b>\$ —</b>	<b>\$ 20,645</b>

At December 31, 2001 the Company has income tax loss carryforwards of approximately \$84,000 which relate to the Company and certain subsidiaries, the tax benefits of which have been recognized in these financial statements. The tax loss carryforwards expire between 2004 and 2021.

## 11. Earnings per Share

Basic earnings per share has been calculated on a weighted average basis of Class A shares and Class B shares outstanding during the year and after giving effect to the net allocation to other paid-in capital related to the convertible debentures.

The calculation of fully diluted earnings per share is based upon the treasury method which the Company adopted as of January 1, 2001 pursuant to the recommendation of the CICA Handbook, Section 3500, Earnings per share. The treasury method was adopted with retroactive treatment and accordingly the comparative years' diluted earnings per share have been restated.

The weighted average shares outstanding during the year are as follows:

For the years ended December 31	2001	2000	1999
Basic	16,885,877	17,366,704	17,776,793
Impact of dilutive items	—	4,467,388	4,215,262
Fully diluted	16,885,877	21,834,092	21,992,055

## 12. Discontinued Operations

In December 1997, the Company adopted a plan to divest its Regal Greetings & Gift and Primes de Luxe ("Regal") operations. Accordingly, the results of Regal are reported as discontinued operations. Interest has been allocated to discontinued operations. During the second quarter, the Company recorded a provision of \$40,000 to cover the anticipated loss on disposal of Regal which was completed in the fourth quarter for proceeds of approximately \$36,000. No adjustment was required to the provision.

For the years ended December 31	2001	2000	1999
Sales	\$ 77,854	\$ 80,069	\$ 77,188
Income (loss) from operations	—	—	—
Provision for loss on disposal	(40,000)	—	—
Loss from discontinued operations	\$ (40,000)	\$ —	\$ —

**13. Retirement Plans**

The estimated market value of assets in the defined benefit component of the pension plans was \$5,314 at December 31, 2001 (2000 – \$16,772, 1999 – \$16,830). These assets are available to meet the estimated present value of accrued pension and other benefits obligations of \$5,016 at December 31, 2001 (2000 – \$15,079, 1999 – \$16,242).

**14. Commitments**

a) The Company has leased real estate and equipment at the following approximate annual base rental:

	2002	\$	21,987
	2003		20,344
	2004		18,831
	2005		15,538
	2006		11,913
	Thereafter		26,107

b) The Company, under agreements with respect to the terms of acquisitions, may be required to acquire part or all of minority shareholdings at an amount based on the net income of the respective subsidiary companies.

**15. Contingent Liabilities**

As at December 31, 2001 there are claims against the Company in varying amounts. It is not possible to determine the amounts that may ultimately be assessed against the Company with respect to these claims; however, management believes that any such amounts would not have a material impact on the business or financial position of the Company.

**16. Related Party Transactions**

The Company incurred fees totalling \$5,375 (2000 – \$5,530, 1999 – \$2,500) to a company controlled by an officer of the Company in respect of services provided including merger and acquisition, financial and administrative. In addition the Company has a non-interest bearing note receivable of \$3,000 (2000 – \$3,000, 1999 – \$3,000) from the same company.

**17. Subsequent Events**

- a) On January 10, 2002, the Company sold a 4.54% interest in Davis + Henderson, Limited Partnership for gross proceeds of \$17,200.
- b) On March 4, 2002, the Company entered into an agreement to sell its remaining 50.01% interest in Davis + Henderson, Limited Partnership for gross proceeds of approximately \$200,000. A final prospectus was filed March 18, 2002 with closing scheduled for the first week of April 2002.
- c) On March 8, 2002, the Company commenced an offer to purchase and consent solicitation process with respect to its outstanding 10.5% Senior Subordinated Notes due December 1, 2006. An amendment was filed March 26, 2002 whereby the Company is offering to purchase up to US\$112,500 of Notes at 89% of the original principal amount.

**18. Segmented Information**

Based on the Company's internal management structure, the Company's continuing operations are in primarily two business segments – Secure Transactions and Marketing Communications through Maxxcom Inc. Secure Transactions operations provide security products and services in four primary areas: personalized transaction products such as personal and business cheques; electronic transaction products such as credit, debit, telephone and smart cards; secure ticketing products such as airline, transit and event tickets; stamps, both postal and excise. Maxxcom provides a comprehensive range of communication services which include advertising, direct marketing, database management, sales promotion, public relations, investor relations, research and consulting, corporate identity, branding and interactive marketing. The significant accounting policies of these segments are the same as those described in the summary of significant accounting policies.

For the year ended December 31, 2001

	Secure Transactions	Maxxcom	Total
<b>Earnings</b>			
Sales	\$ 516,455	\$ 596,817	\$ 1,113,272
Operating income before other income (charges)	\$ 91,462	\$ 26,882	\$ 118,344
Restructuring, dispositions and other charges	(77,412)	(14,200)	(91,612)
Amortization	(30,383)	(10,273)	(40,656)
Interest, net	(44,131)	(6,456)	(50,587)
	(151,926)	(30,929)	(182,855)
Loss before income taxes, goodwill charges and minority interest	(60,464)	(4,047)	(64,511)
Income taxes (recovery)	(23,176)	(2,565)	(25,741)
Loss before goodwill charges and minority interest	(37,288)	(1,482)	(38,770)
Goodwill charges	52,192	14,989	67,181
Minority interest (recovery)	(6,591)	—	(6,591)
Loss from continuing operations	(82,889)	(16,471)	(99,360)
Loss from discontinued operations	(40,000)	—	(40,000)
Net loss for the year	\$ (122,889)	\$ (16,471)	\$ (139,360)
<b>Assets</b>			
Total assets	\$ 513,542	\$ 404,773	\$ 918,315
Expenditures on capital assets	\$ 17,927	\$ 7,206	\$ 25,133

For the year ended December 31, 2000

	Secure Transactions	Maxxcom	Total
<b>Earnings</b>			
Sales	\$ 561,752	\$ 605,030	\$ 1,166,782
Operating income before other income (charges)	\$ 93,696	\$ 33,085	\$ 126,781
Restructuring, dispositions and other charges	24,389	—	24,389
Amortization	(32,177)	(7,023)	(39,200)
Interest, net	(45,672)	(1,675)	(47,347)
	(53,460)	(8,698)	(62,158)
Income before income taxes, goodwill charges and minority interest	40,236	24,387	64,623
Income taxes	408	8,522	8,930
Income before goodwill charges and minority interest	39,828	15,865	55,693
Goodwill charges	8,370	3,333	11,703
Minority interest	2,708	—	2,708
Net income for the year	\$ 28,750	\$ 12,532	\$ 41,282
<b>Assets</b>			
Total assets	\$ 740,512	\$ 366,938	\$ 1,107,450
Expenditures on capital assets	\$ 25,745	\$ 9,557	\$ 35,302

# Notes to Consolidated Financial Statements (continued)

For the year ended December 31, 1999	Secure Transactions	Maxxcom	Total
<b>Earnings</b>			
Sales	\$ 460,065	\$ 368,384	\$ 828,449
Operating income before other income (charges)	\$ 96,135	\$ 19,512	\$ 115,647
Amortization	(27,709)	(2,879)	(30,588)
Interest, net	(39,451)	(109)	(39,560)
	(67,160)	(2,988)	(70,148)
Income before income taxes and goodwill charges	28,975	16,524	45,499
Income taxes	6,366	7,107	13,473
Income before goodwill charges	22,609	9,417	32,026
Goodwill charges	7,532	1,487	9,019
Net income for the year	\$ 15,077	\$ 7,930	\$ 23,007
<b>Assets</b>			
Total assets	\$ 687,512	\$ 218,812	\$ 906,324
Expenditures on capital assets	\$ 36,562	\$ 4,706	\$ 41,268

## Geographic Information

	2001	2000	1999
<b>Sales</b>			
Canada	\$ 427,236	\$ 501,137	\$ 397,432
United States	611,059	612,833	391,582
Other countries	74,977	52,812	39,435
Total	\$ 1,113,272	\$ 1,166,782	\$ 828,449
<b>Capital assets and goodwill</b>			
Canada	\$ 207,688	\$ 312,794	\$ 307,206
United States	329,394	306,555	224,096
Other countries	35,591	48,619	43,391
Total	\$ 572,673	\$ 667,968	\$ 574,693

(dollars and shares in thousands, except per share amounts)		2001	2000	1999	1998	1997	1996
<b>Operations</b>							
Sales	\$	1,113,272	1,166,782	828,449	541,617	341,541	100,509
Cost of sales		558,295	604,165	426,723	277,485	174,290	104,008
Gross profit		554,977	562,617	401,726	264,132	167,251	66,501
Operating expenses		436,633	435,836	286,079	190,092	140,017	71,803
Operating income		118,344	126,781	115,647	74,040	27,234	1,400
Amortization expense		40,656	39,200	30,588	19,374	11,280	5,400
Interest expense		50,587	47,347	39,560	20,008	8,283	4,177
Restructuring, dispositions and other charges		91,612	(24,389)	—	—	—	2,188
Income (loss) before income taxes, goodwill charges and minority interest		(64,511)	64,623	45,499	31,663	18,954	1,607
Income taxes (recovery)		(25,741)	8,930	13,473	9,741	1,854	1,600
Income (loss) before goodwill charges and minority interest		(38,770)	55,693	32,026	21,922	20,808	3,207
Goodwill charges (net of taxes)		67,181	11,703	9,019	6,431	1,802	1,802
Minority interest (recovery)		(6,591)	2,708	—	1,383	281	—
Income (loss) from discontinued operations		(40,000)	—	—	—	28,815	2,008
Net income (loss)	\$	(139,360)	41,282	23,007	14,108	50,716	7,025
<b>Earnings per share</b>							
Income (loss) before goodwill charges and minority interest							
Basic	\$	(2.43)	3.09	1.70	1.41	0.54	0.07
Fully diluted		(2.43)	2.58	1.49	1.24	0.49	0.06
Income (loss) from continuing operations							
Basic	\$	(6.02)	2.26	1.19	0.93	0.50	0.41
Fully diluted		(6.02)	1.92	1.08	0.88	0.49	0.40
Reported							
Basic	\$	(8.39)	2.26	1.19	0.93	(1.00)	0.41
Fully diluted		(8.39)	1.92	1.08	0.88	(1.00)	0.40
<b>Cash flow</b>							
Cash flow from continuing operations	\$	152,694	109,683	69,735	45,072	22,432	12,616
Cash flow per share							
Basic		8.91	6.20	3.82	8.28	1.84	1.26
Fully diluted		6.64	5.05	3.14	6.04	1.41	1.04
<b>Financial position</b>							
Net working capital	\$	24,507	56,405	100,000	50,876	21,800	40,000
Capital and other assets		190,248	290,213	217,711	181,500	110,400	100,000
Goodwill		462,746	509,853	510,000	570,000	600,000	600,000
Total assets		918,315	1,107,450	906,324	799,000	632,200	540,000
Long-term indebtedness		527,468	558,622	487,314	390,711	250,000	150,000
Total indebtedness		539,517	568,501	500,111	407,000	250,000	150,000
Shareholders' equity		134,780	251,848	215,364	391,989	382,200	390,000
<b>Other data</b>							
Operating income as a % of sales	%	10.6	10.9	14.0	13.7	11.4	1.3
Income from continuing operations as a % of sales		(8.90)	3.5	2.8	2.6	(7.1)	4.9
Book value per share	\$	7.97	15.07	12.15	11.56	9.57	8.00
Current ratio		1.10	1.22	1.26	1.21	1.41	1.98
Long-term indebtedness to total capitalization	%	78.2	68.1	67.8	65.3	60.6	63.6
Total indebtedness to total capitalization		80.0	69.3	70.0	66.7	65.5	64.8
Total indebtedness to shareholders' equity		4.0	2.3	2.3	2.0	1.9	1.2
Class A and B shares outstanding at year-end		16,915	16,712	17,740	17,142	12,238	11,000
Employees at year-end		4,700	4,800	5,000	5,000	5,000	5,000

# Board of Directors & Corporate Officers

## Chairman

### **Miles S. Nadal**

Chairman & Chief Executive Officer  
MDC Corporation Inc.

## Members

### **Ronald D. Besse<sup>(3)</sup>**

Chairman & Chief Executive Officer  
Gage Learning Corporation

### **Thomas N. Davidson<sup>(1)(2)</sup>**

Chairman  
Quarry Hill Group

### **Lloyd S.D. Fogler, QC<sup>(3)</sup>**

Partner  
Fogler, Rubinoff LLP  
Barristers & Solicitors

### **Guy P. French<sup>(2)(3)</sup>**

Partner  
Corso, Mizgala & French

### **Albert Gnat, QC<sup>(1)</sup>**

Partner  
Lang, Michener  
Barristers & Solicitors

### **Richard R. Hylland<sup>(2)(3)</sup>**

President & Chief Operating Officer  
NorthWestern Corporation

### **Stephen M. Pustil**

President of  
Penwest Development  
Corporation Limited

### **François R. Roy<sup>(1)</sup>**

Chief Financial Officer  
Telemedia Corporation

### **Graham W. Savage<sup>(1)(3)</sup>**

Partner  
Savage Walker Capital Inc.

## Corporate Officers

### **Miles S. Nadal**

Chairman & Chief Executive Officer

### **James C. Johnson**

President & Chief Operating Officer

### **Peter M. Lewis**

Executive Vice-President  
& Chief Financial Officer

### **Stephen O. Marshall**

Executive Vice-President,  
Corporate Development

### **Walter Campbell**

Senior Vice-President,  
Finance & Corporate Secretary

### **Maria Pappas**

Assistant Secretary

<sup>(1)</sup> Audit Committee

<sup>(2)</sup> Compensation Committee

<sup>(3)</sup> Nominating and Corporate Governance Committee

## MDC Corporation Inc.

**Head Office**

45 Hazelton Avenue  
 Toronto, Ontario, Canada  
 M5R 2E3  
 Phone: (416) 960-9000  
 Fax: (416) 960-9555  
[www.mdccorp.com](http://www.mdccorp.com)  
 Chairman & CEO: Miles S. Nadal

## Secure Transactions Division

**Ashton-Potter Canada Ltd.**

5485 Tomken Road  
 Mississauga, ON  
 L4W 3Y3  
 Phone: (905) 625-1010  
 Fax: (905) 625-4040  
[www.ashtonpotter.com](http://www.ashtonpotter.com)  
 General Manager: Barry Switzer

**Ashton-Potter (USA) Ltd.**

10 Curtwright Drive  
 Williamsville, NY  
 14221  
 Phone: (716) 633-2000  
 Fax: (716) 633-2525  
 General Manager: Barry Switzer

**Custom Direct****Joppa Office**

1802 Fashion Court  
 Suite 111  
 Joppa, MD  
 21085  
 Phone: (410) 679-3300  
 Fax: (410) 686-0950  
[www.checkgallery.com](http://www.checkgallery.com)  
 President & COO: John Browning

**Little Rock Office**

11501 Otter Creek South  
 Mabelvale, AR  
 72103  
 Phone: (501) 455-1600  
 Fax: (501) 407-0325

**Mercury Graphics**

1438 Fletcher Road  
 Saskatoon, SK  
 S7M 5T2  
 Phone: (306) 384-8000  
 Fax: (306) 683-0075  
 President & General Manager: Gordon Bayda

**Metaca Corporation**

460 Applewood Crescent  
 Concord, ON  
 L4K 4Z3  
 Phone: (905) 761-8333  
 Fax: (905) 761-8220  
 President & COO: Greg McKenzie

**Placard Pty Ltd.**

40 London Drive  
 Bayswater, Victoria, Australia  
 3153  
 Phone: 011 613 9 729 4599  
 Fax: 011 613 9 729 8845  
 Managing Director: Chris Ogilvy

**The House of Questa Ltd.**

Canada House  
 Canada Road  
 Byfleet, Surrey, England  
 KT14 7QU  
 Phone: 011 44 1932 871 400  
 Fax: 011 44 1932 871 408  
 Managing Director: Graham Searle

## Corporate

**A.E. McKenzie Co. Inc.**

30 Ninth Street  
 Brandon, MB  
 R7A 6E1  
 Phone: (204) 571-7500  
 Fax: (204) 728-8671  
 President: Michael Fearon

**Computer Composition of Canada Inc.**

12 Stanley Court  
 Whitby, ON  
 L1N 8P9  
 Phone: (905) 430-3400  
 Fax: (905) 430-2412  
 President & CEO: Joe Bugelli

**Pro-Image Corporation**

1805 Loucks Road  
 York, PA  
 17404  
 Phone: (717) 764-5880  
 Fax: (717) 764-6140  
 President & CEO: Joe Bugelli

Maxxcom Inc. (Marketing Communications Division)

**Head Office**

35A Hazelton Avenue  
Toronto, ON  
Canada M5R 2E3  
Phone: (416) 960-6090  
Fax: (416) 960-6093  
www.maxxcominc.com  
President & CEO: Harold Reiter

**Accent Marketing Services, L.L.C.**

West Main Street, Suite 1400  
Louisville, KY 40202  
Phone: (502) 540-5000  
Fax: (502) 540-5574  
www.accentonline.com  
CEO: Cliff Valentine

**Accumark Promotions Group Inc.**

240 Duncan Mills Road, Suite 101  
North York, ON M3B 1Z4  
Phone: (416) 446-7758  
Fax: (416) 446-1923  
www.accumarkpg.com  
President: Tom Green

**Allard Johnson Communications Inc.**

10 Lower Spadina Avenue, Suite 400  
Toronto, ON M5V 2Z2  
Phone: (416) 260-7000  
Fax: (416) 260-7100  
www.allard-johnson.com  
President & CEO: Terry Johnson

**Ambrose Carr Linton Carroll Inc.**

939 Eglinton Avenue East, Suite 203  
Toronto, ON M4G 4E8  
Phone: (416) 425-8200  
Fax: (416) 425-5962  
www.aclc.ca  
President & CEO: Esmé Carroll

**Bryan Mills Group Ltd.**

1129 Leslie Street  
Toronto, ON M3C 2K5  
Phone: (416) 447-4740  
Fax: (416) 447-4760  
www.bryanmills.com  
President & CEO: Nancy Ladenheim

**Colle & McVoy, Inc.**

8500 Normandale Lake Blvd., Suite 2400  
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President & COO: Phil Johnson

**Mackenzie Marketing**

505 N. Hwy 169, Suite 350  
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Fax: (763) 417-7301  
President: Andrew Mackenzie

**Cormark MacPhee Communication Solutions (Canada) Inc.**

369 York Street, Suite 2A  
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Fax: (519) 673-4846  
www.cormark.com  
President: Kingsley Snelgrove

**Crispin Porter + Bogusky**

2699 South Bayshore Dr.  
Miami, FL 33133  
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Fax: (305) 854-3419  
www.cpbmiami.com  
Chairman: Jeff Hicks

**Fletcher Martin Ewing LLC**

303 Peachtree Center Ave., Suite 625  
Atlanta, GA 30303  
Phone: (404) 221-1188  
Fax: (404) 223-1136  
www.fmeonline.com  
President & CEO: Andy Fletcher

**Integrated Healthcare Communications, Inc.**

555 Richmond Street West, Suite 918  
Toronto, ON M5V 3B1  
Phone: (416) 504-8733  
Fax: (416) 504-8737  
www.ihcinc.com  
Principal: Sheila Rivest

**Interfocus Network Ltd.**

Lancer Square  
London, England W8 4ES  
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Fax: 011 44 207 376 9090  
www.interfocus.co.uk  
Chairman & CEO: Matthew Hooper

**Margeotes|Fertitta + Partners LLC**

411 Lafayette Street, 6th Floor  
New York, NY 10003  
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Fax: (212) 475-3827  
www.margeotes.com  
President & CEO: George Fertitta

**Bratskeir & Company**

411 Lafayette Street, 4th Floor  
New York, NY 10003  
Phone: (212) 679-2233  
Fax: (212) 460-0432  
President: Stan Bratskeir

**Chinnici Direct LLC**

411 Lafayette Street, 3rd Floor  
New York, NY 10003  
Phone: (212) 260-3736  
Fax: (212) 260-3710  
President: Michael Chinnici

**News Canada Inc.**

111 Peter St., Suite 810  
Toronto, ON M5V 2H1  
Phone: (416) 599-9900  
Fax: (416) 599-9700  
www.newscanada.com  
President & Publisher: Ruth Douglas

**Northstar Research Partners Inc.**

Sterling Tower  
372 Bay Street, Suite 1600  
Toronto, ON M5H 2W9  
Phone: (416) 907-7100  
Fax: (416) 907-7149  
www.nrponline.com  
President: Stephen Tile

**Source Marketing LLC**

15 Ketchum Street  
Westport, CT 06880  
Phone: (203) 291-4000  
Fax: (203) 291-4010  
www.sourcemkt.com  
President: Howard Steinberg

**Strategies International**

135 Berkeley Street  
Toronto, ON M5A 2X1  
Phone: (416) 366-8883  
Fax: (416) 366-2151  
www.si-creative.com  
President: Greg Bérubé

**TargetCom, LLC**

444 North Michigan Avenue, 27th Floor  
Chicago, IL 60611  
Phone: (312) 822-1100  
Fax: (312) 822-9628  
www.targetcom.com  
CEO: Jay Miller

**Veritas Communications Inc.**

161 Eglinton Avenue East, Suite 704  
Toronto, ON M4P 1J5  
Phone: (416) 482-2248  
Fax: (416) 482-2292  
www.veritascanada.com  
Chairman & CEO: Terry Johnson

## Legal Counsel

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### Canada

Fogler, Rubinoff  
Toronto, Ontario

### USA

Simpson Thacher & Bartlett  
New York, New York

Skadden Arps Slate Meagher & Flom  
New York, New York

## Auditors

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BDO Dunwoody LLP

## Bankers

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Royal Bank of Canada  
Canadian Imperial Bank of Commerce  
Bank of Nova Scotia  
Bank of Montreal  
The Toronto-Dominion Bank  
Comerica Bank—Canada  
Laurentian Bank of Canada

## Transfer Agent

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CIBC Mellon Trust Company  
CIBC Mellon Trust Company operates  
a telephone information inquiry line  
that can be reached by dialing toll-free  
1-800-387-0825 or (416) 643-5500.

Correspondence may be addressed to:  
MDC Corporation Inc.  
c/o CIBC Mellon Trust Company  
Corporate Trust Services  
P.O. Box 7010  
Adelaide Street Postal Station  
Toronto, Ontario M5G 2M7

## Investor Relations

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For Investor Relations information  
please call Stephanie Ivy,  
Vice-President, Finance  
(416) 960-9000.

## Stock Exchange Listing

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The Class A shares of the Company  
are listed on The Toronto Stock Exchange  
and on the NASDAQ National Market  
in the United States.

## The Toronto Stock Exchange Trading Symbol

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MDZ.A

## NASDAQ National Market

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MDCA

## Notice of Shareholders' Meeting

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The annual meeting of shareholders  
will be held Thursday, May 30th, 2002  
at 4:30 p.m. at the Design Exchange,  
Toronto-Dominion Centre,  
234 Bay Street, Trading Floor,  
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